Aalto University
School of Engineering

Competitive Advantages Created by Market Strategies and the Economic Cycle in Commercial Real Estate Investment

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Abstract of master's thesis

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Abstract

Economic cycles have a strong impact on the profitability and operations of modern markets. Even commercial real estate investments which have been traditionally considered to produce steady returns with a relatively low volatility have encountered large difficulties especially during the last decade to generate returns which succeed their return expectations. Simultaneously the rapid development of the Finnish commercial real estate investment market has woken up the interest of even increasing amount of investors which has further increased the competition between different investors actively participating in the market notably. A proportion of the investors have managed to perform better than their competitors during different phases of the economic cycle by creating and utilizing so called competitive advantages in relation to their competitors.

This master's thesis focuses on studying the competitive advantages in relation to fluctuations of the economic cycle of different domestic and foreign investors which have been active in the Finnish commercial real estate market between the years 2006 and 2012. This thesis includes a literature review of competitive advantages in general and furthermore applies these theories to commercial real estate investment. Competitive advantages of different investors are observed in relation to the organizations' internal characteristics and cost efficiencies considering the discounted cash flow analysis which is typically used for valuating various real estate investments.

The research's empirical part studies the transactions data of the years 2006, 2009 and 2012 resembling different phases of the economic cycle. Furthermore it recognizes and analyses the investment strategies of different investors in relation to the transactions data in order to determine the actual competiveness of investors with different organization types during the observation years. The assumption behind this research is that in order to successfully purchase assets the investor is required to have relative competitive advantages compared to other investors participating in the purchase process in order to be able to place the asset's highest purchase bid.

According to research results the competiveness of investors with different organization types indeed varies depending on the current dominant phase of the economic cycle. Despite this the results show that domestic publicly listed commercial real estate investors are extremely competitive during all the observation years with a significant difference to other organization types. Furthermore the theory discussed in this thesis supports the fact that publicly listed commercial real estate investment companies possess good conditions to perform very competitively in the markets.

Keywords commercial real estate investment, competitive advantage, strategy, real estate markets, economic cycle

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Tiivistelmä

Suhdannevaihteluilla on suuri vaikutus nykyaikaisten markkinoiden kannattavuuteen ja toimintaan eri aikakausina. Vaikka kiinteistösijoitusten on perinteisesti ajateltu tuottavan vakaita tuottoja suhteellisen matalalla keskihajonnalla, ovat ne kuitenkin paikoitellen kohdanneet suuria ongelmia saavuttaa tuotto-odotuksensa erityisesti viimeisen vuosikymmenen aikana. Samaan aikaan Suomen kiinteistömarkkinoiden nopea kehittyminen on herättänyt yhä useamman sijoittajatahon kiinnostuksen markkinaa kohtaan, mikä on lisännyt eri sijoittajien keskinäistä kilpailua huomattavasti. Osa toimijoista on vuosien saatossa ja eri suhdanteiden vallitessa kuitenkin pärjännyt markkinoilla paremmin kuin toiset saavuttamiensa kilpailuetujen vuoksi.

Tämä diplomityö keskittyy tutkimaan erilaisten Suomen kiinteistömarkkinoilla vuosien 2006–2012 aikana toimineiden koti- ja ulkomaisten kiinteistösijoittajien saavuttamia kilpailuetuja suhteessa samaan aikaan tapahtuneisiin yleisiin suhdannevaihteluihin. Tämä tutkimus sisältää kirjallisuuskatsauksen kilpailueduista yleisesti ja myöhemmin soveltaa kyseisiä teorioita erityisesti kiinteistösijoitusmarkkinoihin. Erilaisten kiinteistösijoittajien kilpailuetuja tarkastellaan teoriassa erityisesti erilaisten organisaatioiden sisäisten ominaisuuksien sekä kiinteistöinvestointeja arvioidessa yleisimmin käytettyyn nettonykyarvoitettuun kassavirtalaskelmaan (DCF-analyysiin) ja tähän liittyviin kustannussäästöihin perustuen.

Diplomityön empiirisen osuuden tarkoituksena on vuosien 2006, 2009 ja 2012 transaktiotietojen ja eri kiinteistösijoittajien tunnistettujen investointistrategioiden perusteella tutkia, miten eri organisaatiotyypin kiinteistösijoittajat ovat kilpailullisesti pärjänneet transaktiotilanteissa kyseisinä tutkimusvuosina, jotka edustavat talouden eri suhdanteita. Oletuksena tutkimukselle on, että suorittaakseen onnistuneesti kiinteistötransaktion ostajana, kiinteistösijoittajalla on oltava suhteessa suurempia kilpailuetuja muihin tarjousprosessiin osallistuneisiin kilpailijoihinsa nähden, jotta juuri kyseisen toimijan on mahdollista antaa tarjouksen kohteesta voittava eli oletettavasti suurin tarjous.

Empiirisen tutkimuksen mukaan erilaisen organisaatiotyypin omaavat kiinteistösijoittajat ovat kilpailullisesti erilaisessa asemassa riippuen kulloinkin vallitsevasta talouden suhdanteesta. Tästä huolimatta ja suhdanteesta riippumatta erityisesti kotimaiset pörssilistatut kiinteistösijoittajat pärjäävät tutkimuksen mukaan kilpailullisesti kuitenkin erinomaisesti muihin organisaatiotyyppeihin verrattuna. Myös tutkimuksessa esitetty teoria tukee erityisesti pörssilistattujen kiinteistösijoittajien kilpailullista menestymistä.

Avainsanat kiinteistösijoittaminen, kilpailuetu, strategia, kiinteistömarkkinat, suhdannevaihtelu

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The slightly over five years I've spent studying at Aalto University have provided me an unforgettable and challenging journey which is about to come to an end by the completion of this master's thesis. Despite spending these five years studying different real estate issues at the university and simultaneously working in various companies operating in the real estate industry, the writing process of this master's thesis was still an extremely educational experience for me and has provided lots of new information regarding different aspects of the real estate industry.

I'd like to thank all the organizations I've been honored to have the opportunity to work in during my studies as they have provided an important viewpoint about the industry's more practical issues in contrast to the theories taught at the university. Especially I'd like to thank my current employer Sponda Plc and its employees for providing me the most interesting, challenging, and rewarding working environment to be a part of.

Furthermore I'd like to thank KTI Property Information Ltd and Mikko Soutamo for providing the transactions data used in the empirical research as it wouldn't have been possible to perform the research in its current form without it. My sincere thanks for the people of Certeum Ltd as well for providing the funding for this master's thesis. My deepest gratitude, however, belongs to D. Sc. Heidi Falkenbach for providing the idea and acting as the advisor and supervisor of this master's thesis with the outstanding supportiveness and flexibility I can only thank you for.

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Helsinki, 7th of February 2015

Valtteri Bragge

Contents

1 Introduction

1.1 Background

Investing in commercial real estate assets has been traditionally recognized as a relatively safe and secure alternative providing predictable cash flows with a little to no correlation with returns generated by more traditional securities like stocks, which returns provided tend to fluctuate strongly by the global economic cycles (Quan & Titman 1999; Riddiough 2002). Commercial real estate have thus been actively used for risk minimization of numerous mixed-asset portfolios through diversification (Rehring 2012; Riddiough 2002). During the economically difficult times in the beginning of 1990's and in the last decade also the commercial real estate investment sector has however confronted major obstacles to reach its expected return levels (Case et al 2000; Peng 2011).

New development of commercial real estate has been highly active during the 2000's driven by the constantly increasing demand in the rental market due to steadily accelerating GDP growth. Simultaneously the increased amount of capital possessed by households supported the constantly growing housing development. This ultimately created a major oversupply especially in the U.S. residential real estate markets which ultimately led to markets' crashing after the so called subprime crisis in 2007 which had strong also globally observable economic reflections (Berkovec et al 2012; Mody & Sandri 2012; Pittenger 2013). This had immediately both direct and indirect effects in the strongly globally and locally GDP-correlating commercial real estate markets (Case et al 2000) as well, which peaked in 2007 and also crashed right after (Peng 2011; Pittenger 2013). The crash of the U.S. commercial real estate markets left notable amounts of particularly second class assets, i.e. suburban office space, vacant and furthermore collapsed the total market value of the commercial real estate market as a consequence (PWC 2014; Pittenger 2013).

Similar occurrences have been also observed in i.e. European real estate markets as well. Despite Finland being one of the least economically affected European countries by the U.S. subprime crisis (Mody & Sandri 2012) the Finnish commercial real estate market peak of 2007 and the following recession can be however clearly seen in i.e. the decrease of property transaction volumes. Annual transaction volume peaked sharply from € 2.7 bn in 2005 all the way to € 6.0 bn in 2007 and afterwards remained at as low as € 1.9 bn in average during 2009-2013 mostly due to the extraordinary high vacancy rates caused by i.e. collapsing of the global markets and the decrease in Finland's GDP growth rate (Catella 2014; Newsec 2014). Despite the still poor overall domestic market environment stalling in stagnation and the challenging commercial real estate market suffering from especially office oversupply, the domestic transaction volume are finally showing signs of recovering as of the second half of 2014 (Catella 2014).

The global recession seems to have most direct negative impact both in the U.S. and Europe especially on the traditional office sector in secondary locations while i.e. prime-location office as well as retail and industrial properties in general have proven to be less vulnerable to recent economic fluctuations, the latter driven especially by the increased interest in electronic commerce during the 21st century (BNP Paribas 2013; PWC 2013a; Jones Lang LaSalle 2013; Pittenger 2013). The Finnish commercial real estate transactions market demand is still very concentrated on properties on prime locations, where the very limited supply is efficiently restricting the transactions volume and furthermore compressing yields (KTI 2014). Simultaneously it is increasingly difficult to find investors for secondary location properties despite the record-low interest rates of debt and relatively low amount of distressed sales in such locations considering the challenging market situation (KTI 2014). Simultaneously in the U.S. the investment activity of secondary location properties has begun to grow again, as the investors find less and less available investment opportunities from prime locations (PWC 2014). Similar growth in demand of secondary location properties is also expected to occur in the near future in Europe as well (Jones Lang LaSalle 2014; Catella 2014). Furthermore according to KTI (2014) some domestic investors, such as Saka Hallikiinteistöt Ltd, have taken advantage of the current market situation by acquiring distressed investment properties from secondary location markets for only a fraction of the original purchase price.

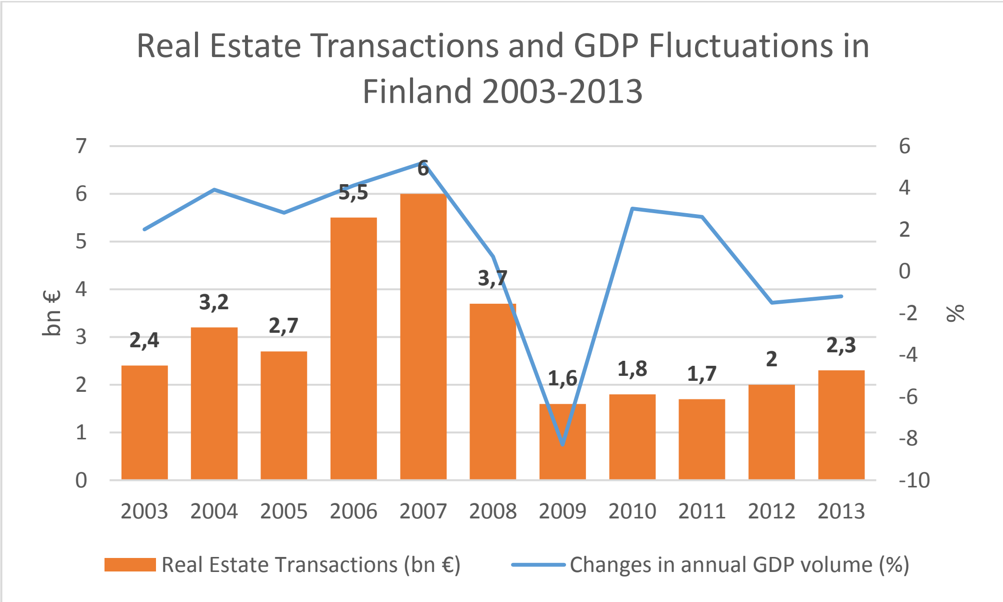

Figure 1:1. Real Estate Transactions and GDP Fluctuations in Finland 2003-2013 (Catella 2014; Statistics Finland 2014)

Thus against the common belief the commercial real estate market can be assumed to be proven to be vulnerable to fluctuations in the global and domestic markets as well. It can also be assumed that rational and aware commercial real estate investors attempting to maximize the return of their investments do guide their investment actions considering the dominant phase of the economic cycle and its expected course in the future driving the markets. The performance of different real estate investors based on the previous chapter can thus be assumed to be greatly dependent on the dominant market situation and timing of their investments. Additionally the investor's market strategy plays an important role in investment performance during different timeframes. For example investors acting with a market strategy consisting of investing in commercial properties with a secondary location, it is essential to time their investments correctly in accordance to their expectations of the past and future fluctuations in the economic cycle. In such cases (i.e. previously mentioned Saka Hallikiinteistöt Ltd) investments should in theory be timed on recession phase of the cycle where the transaction oversupply drives the market prices down. This can later be used as an advantage when the secondary location rental demand begins to grow and the economic recovery creates pressure for the market prices to increase again. On the other hand, badly timed investments in such markets are likely to lead into difficulties if the rental demand in the target area is to decrease by time.

In brief similar concepts drive the performance of investors despite their varying market strategies. Fluctuations of the market cycle are also in some occasions, depending on the companies' current market strategy, either guiding or forcing the investors to alter their market strategies and investment policies in order to enhance their performance in the dominant market situation. Furthermore the investment performance expectations in terms of i.e. expected returns varies depending on the investor's market strategy and individual outlooks of the future. This phenomenon also leads to varying and market strategy dependable opinions of investment values for different investment opportunities.

In other words: fluctuations in the economic cycle create different investment return and furthermore value expectations for real estate investors acting on different market strategies. Simultaneously the investors acting during the most beneficial phase of the economic cycle supporting their individual market strategies better gain competitive advantage in transaction situations compared to other investors. This is because they have the most opportunistic impression of the investment's profitability and the most cost efficient organization and are thus also ready to offer the highest purchase price for the transaction to happen. This research is based on studying the previously described phenomenon by recognizing the organization types benefiting the most and thus also investors gaining the largest competitive advantage during different phases of the economic cycle with a focus on the Finnish commercial real estate market.

1.2 Research questions and limitations

The purpose of this study is to research how changes in the economic cycle affect the competitive advantages of commercial real estate investors of different organization types. Different market strategies of real estate investors are recognized, the investors categorized accordingly and then analyzed with a comparison of their performed investment transactions considering present circumstances in the economic cycle.

The desired research outcome is to provide answers to the two research questions presented below:

- Which organization types of commercial real estate investors gain the most competitive edge from each phase of the economic cycle
- How much competitive advantage (or disadvantage) do certain economic cycles provide for commercial real estate investors

Research is performed with a strong emphasis on the real estate investment company's viewpoint and doesn't take much stand on i.e. the aspect of the society. This thesis takes a global viewpoint on the theoretical aspects discussed and attempts to provide globally applicable answers to the mentioned research questions despite the empirical research data covering the Finnish commercial property market only. The research is focused solely on commercial real estate investments and doesn't thus take a stand on i.e. residential real estate purchases made by households. Furthermore this research excludes investments made not on investment purposes as for example in owner-occupying situations. The empirical part of this research is limited to observing transactions in the Finnish commercial real estate market during the years 2006, 2009 and 2012: before and after the global economic crisis starting of 2007.

1.3 Research methodology

The purpose of this research is to answer the research questions presented previously by recognizing and categorizing different real estate investor groups by their market strategies and organization types and furthermore to observe the competitive market advantages of different investors during different dominant economic cycles. In order to give the reader a solid theoretical background on the research topic and furthermore to perform credible empirical research, the second and third chapters elaborating competitive advantages and market strategies first in general and later especially in the commercial real estate markets are carried out as a literature reviews considering the fundamental theories and existing relations of the mentioned themes.

Chapter 4 will provide empirical research on the market strategies and competitive advantages of different real estate investors acting in the Finnish commercial real estate markets during different phases of the economic cycle. The quantitative empirical research will be performed using real estate transactions data of the years 2006, 2009 and 2012, with the year 2006 representing the phase of late recovery, the year 2009 the recession phase of the global economic cycle immediately after the 2007 financial crisis and 2012 the prolonged recession nearly five years after the beginning of the financial crisis. Current and historical market strategies of different real estate investors acting in the Finnish commercial property market are analyzed based on publicly available data from i.e. annual reports, company descriptions and websites. These gathered market strategies are then adjusted to corresponding phases of the economic cycle.

Furthermore the available transaction data is analyzed to empirically study the competitive advantages of real estate investors possessing varying market strategies in 2006, 2009 and 2012 representing different dominant phases of the economic cycle. The transactions data analysis is based on the assumption that in order to successfully perform a real estate transaction the buyer has to give the highest purchase price offer and thus have the highest return expectations for the asset under transaction.

1.4 Research structure

The research will comprise of five chapters. These five chapters will cover the study all the way from introduction to theoretical review of the research topic and furthermore to empirical research in order to provide concluding answers to the previously presented research questions. The second chapter will focus on providing a solid theoretical background for the study by discussing existing literature related to competitive advantages and market strategies in general. Chapter three will focus in competitive advantages of commercial real estate investment companies in particular by applying the general theory presented in the second chapter for them. Chapter four will present the actual empirical research by analyzing investors' market strategies and transactions data based on the theoretical backgrounds presented in the second and third chapters. The fifth chapter will summarize the results of the empirical research and conclude the paper by presenting final summary of the study and potential following research questions for future studies.

The first chapter provides an introduction to the research by presenting research questions, methodology and structure. The chapter will also briefly motivate and justify the research by presenting occurred topical events in the commercial real estate investment industry.

Chapter two will provide theoretical background to competitive advantages and market strategies in general level. The chapter will utilize the resource-based view for analyzing competitive advantages in order for companies to use them in their market strategies. Furthermore the chapter will briefly present some basic fundamentals and examples of applying these theories considering competitive advantages in general for commercial real estate investment.

Third chapter will briefly present the fundamental principles of investing in commercial real estate in order to give a solid basis for the empirical study. The chapter will then utilize the theories of competitive advantages and market strategies in general in order to apply them to be used in the commercial real estate investment industry in particular. The focus of competitive advantages in commercial real estate investment is within analyzing the discounted cash flow method most often used for investment valuation and the benefits gained by organizational characteristics of different investors.

Fourth chapter takes an empirical viewpoint to the varying investment strategies of real estate investment companies operating in the Finnish commercial real estate investment market. The chapter will recognize different market strategies of investors which can be clearly disassociated from each other based on their organization types and characteristics related to their investment policies. Furthermore the transactions data of the years 2006, 2009 and 2012 is analyzed and the investment strategies of different investors then applied in relation to the research data. The objective of this chapter is to answer the research objectives by recognizing the organization types of commercial real estate investors which benefit the most and thus gain notable competitive advantages compared to other organization types during different phases of the economic cycle. Furthermore the actual differences in competiveness of different organization types is attempted to be measured.

The fifth and final chapter will summarize the paper by discussing empirical results achieved in the chapter four and ultimately presenting conclusion for this research. The final chapter will also provide potential research topics awoken during and after the research process for possible further studies.

2 Competitive advantages and business strategy

2.1 Definition of competitive advantages

The rapid development of different markets assisted by i.e. the increasingly accelerating technological advancement has also efficiently managed to lure new market participants (Prunea 2014). As the amount of new participants continues to grow constantly also the competition in the markets is expected to increase (Prunea 2014). The continuously tightening markets resulting from increased competition has the tendency to increase the efforts required from business organizations to cope financially in the markets. In order to grow their market share and to compete in the price-quality competition it is extremely important for modern business organizations to recognize their internal strengths and weaknesses and furthermore to utilize them efficiently against the organization's external threats and opportunities. In other words they have to create a competitive business strategy in order to answer to the constantly increasing market competition (Grant 2010, p. 12; Barney 1991).

The most commonly referenced and used publication of assessing these internal strengths and weaknesses, which is also going to be used as a basis for this research as well, is the so called resource-based view developed in the 1980-1990's, and originally presented by Wernerfelt (1984, 1995), which has later been furthermore improved by i.e. Barney (1991). Harnessing the mentioned internal and external attributes to compete in the markets with an increased efficiency compared to other business organizations is called achieving competitive advantages (Galbreath & Galvin 2006; Barney 1991). Grant (2011, p. 211) approaches the matter from another angle and describes the definition for competitive advantage to be the relative edge the observed business organization gains compared to its rivalries which makes it possible for the observed organization to constantly gain excess returns from its business operations compared to its competitors. On the other hand in order to achieve the excess returns compared to their competitors it is required for the business organizations to actively adapt to various kinds of market events by recognizing and utilizing the previously mentioned internal and external resources.

Among others Prunea (2014) presents that in order to be successful the most important objective of business organizations is to create superior competitive advantages compared to the other companies operating in the same industry. In practice in most of the cases this means that the business organizations have either to manage to produce their current products at a lower cost, in other words by price competition, or by creating completely new products for the markets, in other words by product differentiation, at a price which covers the costs of product development, production and the required rate of return (Prunea 2014; Grant 2010, p. 222). In capital markets these competitive advantages possessed by business organizations are reflected as lower operation costs and more efficient management of capital assets leading to higher profits than other average market investors would otherwise be able to provide. Considering the required rate of return for capital assets to be market determined, the organization with more competitive advantages would thus be able to provide a higher purchase price for assets than other organizations even though still gaining the market determined returns.

The first thing for different business organizations to consider when beginning to construct their business strategies is the recognizing of their internal resources in order to utilize them for competitive advantages in the markets. The importance of recognizing and utilizing internal resources can't be emphasized enough as according to numerous empirical studies the internal resources tend to have notably more impact on the company's competitiveness than its external resources (Cater & Cater 2009).

Organization's internal resources, which can be categorized into weaknesses and strengths, consists of the organization's internal courses of action, available natural resources, assets and capabilities which by utilizing the organization guides its actions and creates different strategies with an objective to increase its performance and efficiency (Prunea 2014; Grant 2010; Barney 1991). In an extremely important position for creating competitive advantages are the organization's tangible, intangible and human resources together with its organizational capabilities (Prunea 2014; Cater & Cater 2009). Recognizing these organization's internal attributes has however often proven to be extremely difficult as only a minority of these attributes can be directly measured by i.e. the actual competitive advantages it has produced in terms of for example monetary units. As the most critical factors of its internal or external attributes affecting the organization's competiveness have often been considered the value, heterogeneity, rareness, durability, substitutability, restricted mobility as well as imitability and finally a limited amount of existing competition in the desired market segment (Cater & Cater 2009).

2.2 Organization's internal resources and organizational capability

Articles considering business organization's competitive advantages and categorization of their internal resources come from numerous different authors which present several different criteria for resource categorization (see i.e. Prunea 2014; Barney 1991). However, especially Grant (2010) presents in his widely recognized and actively referenced book a well-functioning and simple way to categorize and research business organization's internal and external resources and their relations. Thus based on the popularity, appreciation and simplicity of Grant's (2010) work the categorization of organization's internal and external resources and the competitive advantages created by them will be presented in this research according to Grant's (2010) book as well. In his work Grant (2010) categorizes the organization's internal resources to the groups of tangible, intangible and human resources. Each one of the mentioned groups has its own unique characteristics which can still be clearly separated from each other forming further subcategories for these resources.

Figure 2:1. Structure of organizations' internal resources (Grant 2010)

2.2.1 Organization’s tangible resources

Organization’s tangible resources consist of its physical and financial resources (Grant 2010, p. 127). In practice for all the tangible resources owned by the business organization can be with a relatively low effort determined a monetary value. In terms of value especially the physical resources are the easiest one to analyze as a marking from each physical asset owned by the organization can be found from the balance sheet. On the other hand Grant (2010, p. 128) describes that examining the organization’s physical resources solely by their value in the balance sheet leads to defectively made strategic business decisions. For example the commercial real estate assets’ or general equipment’s book value might be calculated according to i.e. their investment and assumed annual depreciation costs which on the other hand doesn’t take into consideration the actual external market potential of such assets usually leading to book values lower than the actual market value would be (Nappi-Choulet et al 2009). The main objective of commercial real estate investors (or any other organizations investing in capital assets) can be considered to be to maximize the so called market-to-book (M/B) ratio which directly represents the firm's performance through the difference between the assets' actual market value and book value (Friday et al 1999). In practice a high M/B ratio implies that the investor has managed to utilize its intangible resources well which manifests itself as i.e. efficient management and good corporate governance within the company (Friday et al 1999). Thus the difference between the book value of organization’s physical resources calculated using historical data and the actual market value of these assets can become substantial in practice (Grant 2010, p. 128). On the other hand i.e. Dumbrava et al (2012) describe that it is important to examine the fair value of such physical resources always in touch with the business organizations’ annual financial statements in order to minimize the difference between the organizations’ assets’ book and potential market values.

Physical resources represent a portion of the tangible resources used by the business organization (Prunea 2014). These physical resources include i.e. real estate assets, equipment, geographical location and the organization’s access to raw materials (Grant 2010, p. 128; Barney 1991). Traditionally the organization’s physical resources have been considered as inevitable expenses-producing necessaries which only play a functional role making it possible for the organization to conduct business operations (Cohen 2010). Despite this common consideration the physical resources play a strategically important role in the business organization’s competiveness as they have a strong potential to notably impact on the organizational and financial outcomes of the company (Cohen 2010). Furthermore in commercial real estate investment the real estate assets actually play a key role in the organization as all the industry’s business operations are in practice focused in purchasing, managing and divesting of real estate assets.

The financial outcomes can be as well achieved especially by modifying the organization’s ownership structure or working environment which are key factors affecting the organization culture and labor productivity of the company presented later on this research (Cohen 2010). Especially ownership structure played a vital role in the fast expansion of equity real estate investment trusts during the 1990's as their ownership structure promoted their competitiveness to a level they were constantly able to pay higher than market value transaction prices when purchasing assets in certain parts of the U.S. (Hardin & Wolverton 1999). The actual competiveness of equity real estate investment trusts in practice can be however criticized as by paying higher purchase prices for assets they were also assumed to receive lower asset specific returns than more traditional unsecuritized investors investing in real estate assets directly would have received (Hardin &

Wolverton 1999). On the other hand paying premium on market transactions might have been included in the long-term business strategies of equity real estate investment trusts which in practice would imply the premium to be offset by different organizational efficiencies of equity real estate investment trusts compared to the more traditional investment organization ownership structures (Hardin & Wolverton 1999).

In modern business environments also the proliferation of advancement in information technology has assisted companies operating in certain industries to reducing the required amount of physical resources for their business operations. In addition the constantly accelerating globalization has made it possible for the companies to outsource operations with a tendency of intensively using physical resources, like manufacturing, to less expensive countries simultaneously creating strategic competitive advantages for the exploiters of outsourcing. (Javalgi et al 2011)

Physical resources aren't however the organization's only tangible resources, but instead financial resources are included in them as well. The financial resources consist of i.e. the cash and securities owned by the organization and its potential capacity of debt (Grant 2010, p. 127). Especially in actively evolving and uncertain markets often characterized by constantly decreasing availability of financing emphasize the importance of organization's to maintain a liquid balance to sustain its competiveness as for example the aftermath of the 2007 financial crisis has shown (Fresard 2010). Furthermore Fresard (2010) presents that the amount of cash and cash equivalents has a notable strategic meaning especially when the amount of strategic transactions between market competitors is increasing and there is only a limited amount of external financing available. Thus it can be stated that it is recommended for the organizations to maintain a relatively large pool of cash and cash equivalents in order to gain increasing amount of market share in the expense of its competitors which furthermore contributes towards the organization's increasing performance and value (Fresard 2010). When making decisions about investments in different securities it is thus important for the business organization to consider the investments' liquidity as liquid securities can be if necessary quickly realized into monetary units furthermore boosting the company's competiveness.

The business organization's capability to raise debt financing is an important factor in making competitive business operations possible especially in capital-intensive industries like i.e. commercial real estate investment industry (Reed et al 2012). Furthermore Reed et al (2012) present that as the organization's size increases it has been traditionally offered more debt financing for lower interest rates as the company's credit default risk is expected to decrease as its size increases. The amount of externally available debt and its price thus play an important role in the company especially when debt is offered less and at a higher price in general. Based on this theory commercial real estate investors are also often considered to gain competitive advantages as their size by market capitalization increases due to the increased availability of financing at a decreased cost provided by their larger size (Linneman 1997). These so called economies of scale benefits are further discussed in chapter 2.3.2.

In addition to the company's cash and cash equivalents together with its flexible accessibility to debt financing it is possible for the company to increase its balance's liquidity and furthermore its competitive advantages by negotiating financing beforehand but leaving the agreed financing strategically on purpose or unintentionally uncollected simultaneously creating so called credit limits. Business organizations which have uncollected beforehand agreed credit limits gain valuable competitive edge compared to their competitors as the credit limits makes it possible for the companies to raise substantial amounts of capital in a relatively short time frame in order to finance i.e. relatively quickly occurred market transaction opportunities. For example in the turmoil of the 2007 financial crisis the decreased availability of financing for commercial real estate investments in Finland has led to longer transaction processes and decreased the average size of transactions which provides advantages in transaction opportunities for investors with good access to financing (Taloussanomat 2008). In other words beforehand agreed credit limits enable rapid actions in transaction situations despite the otherwise tightened financing markets. Together with its cash and cash equivalents the credit limits and general accessibility to financing create an important portion of the competitive advantage gained by the business organization especially in capital intensive industries and during times when the availability of external financing is limited.

Despite the fact that the organization's business operations wouldn't be possible without the tangible resources, the tangible resources don't according to previously performed research however contribute as much towards the competitive advantages gained by the organizations in the markets as the organization's owned and utilized intangible resources do (Grant 2010, p. 128; Cater & Cater 2009; Cohen & Kaimenakis 2007; Galbreath & Galvin 2006). The main reason for this phenomena is that the tangible resources don't usually fulfill the previously mentioned attributes to be critical factors in terms of the organization's competitiveness (Cater & Cater 2009). Additionally since the beginning of the 1990's among others technology, the availability of external financing and accessibility to raw materials have become more and more imitable by the firm's competitors which has forced business organizations to seek for new sources to gain their competitive advantages from (Kazlauskaite & Buciuniene 2008).

The majority of empirical research studying the argument of intangible resources having more effect on firm's competiveness is however concentrated on studying firms competing in especially industries which tend to use intangible resources more intensively (Britto et al 2014). Furthermore the larger importance and criticality of intangible resources compared to tangible resources in terms of firm's competiveness hasn't gained much attention in empirical research focused on capital intensive industries (Britto et al 2014). In their own empirical research focusing in the advantages of intangible resources in the very capital intensive commercial real estate investment industry Britto et al (2014) conclude that intangible resources do have some effect on the competiveness of firms operating in capital intensive industries but at least in the short term majority of the business organization's competiveness is gained from the efficient utilization of their tangible resources. Furthermore i.e. Galbreath & Galvin (2006) point out in their research that in some cases the utilization of tangible resources provides substantial competitive advantages forming a major part of the firm's competitive advantages. As a simple example supporting the argument, the geographical location of a retail store plays a major role in the retailer's successfulness (Galbreath & Galvin 2006).

Thus to conclude, the currently existing empirical research considering the importance and criticality of tangible and intangible resources in terms of business organizations' competitive advantages has to be analyzed critically as the corresponding industry's characteristics has a major impact on the actual research outcomes. Taking a critical approach on such empirical studies is required especially when utilizing them in capital intensive industries, relying strongly on the organization's tangible resources, such as the commercial real estate investment industry. Despite using tangible resources intensively investors acting in the commercial real estate industry tend to require lots of information in order to be competitive which also emphasizes the criticality of intangible resources, innovation and the so called intellectual capital in commercial real estate investment (Britto et al 2014).

2.2.2 Organization's intangible resources

Business organization's intangible resources consist of its non-physical resources which contribute towards the organization's financial profits and are either never or rarely included in the firm's balance sheet (Grant 2010, p. 128; Galbreath & Galvin 2006). In practice all these intangible resources are categorized either to technology, reputation or organization culture possessed by the business organization (Grant 2010, p. 127). These intangible assets do also serve several operational purposes simultaneously, aren't worn out by usage and function as both the inputs and outputs of the business organization (Grant 2010, p. 127; Galbreath & Galvin 2006). Other particular characteristics of intangible resources are their difficult imitability, limited transferability between companies and the fact that they are also if not completely then close to unavailable for purchase from the input markets (Galbreath & Galvin 2006). As already described previously the majority of the competitive advantages gained by business organizations and thus also a large part of their value is in most of the cases determined by the amount and quality of their possessed intangible resources (Grant 2010, p. 128; Cater & Cater 2009; Cohen & Kaimenakis 2007). Despite the critical nature of intangible resources in terms of firms' competitiveness it is extremely difficult to analyze the accumulated competitive advantages generated by them in practice which is also one factor affecting the fact why they aren't given a monetary value in companies' balance sheets (Grant 2010, p. 128; Cater & Cater 2009; Rodov & Leliaert 2002). Despite this they play an important role in the organization's business operations, strategy and competiveness making it crucial for the management to understand which intangible resources actually play a more or less important part in forming the firms' competiveness.

Technology is an intangible resource which represents the intellectual assets possessed by the business organization which are often in some manner legally protected or otherwise defended against the competitors' attempts of imitation (Grant 2010, p. 128; Galbreath & Galvin 2006). Without proper protection against the imitation attempts of competitors technology can be considered to be worthless in the long term and thus a legal protection and proper utilization for the organization's business operations is required before technology can begin to create actual value for the organization (Sullivan 1999; McConnachie 1997).

In practice the technology possessed by organizations consists of different patents, trademarks, copyrights and trade secrets (Grant 2010, p. 127; Galbreath & Galvin 2006; McConnachie 1997). Organization's technology doesn't come up by itself but is in practice always formed from the inputs of the firm's employees, or so called human resources, which has ultimately led to the creation of valuable technological assets for the firm in the form of i.e. patents or trademarks (Sullivan 1999). Especially the advancement of information technology, growth of different service industries, globalization and the reduced amount of market regulations have driven the modern business organizations' dependency on technology and innovation forwards also simultaneously accelerating the efficient technology management as one of the most important intangible resources possessed by companies (Bismuth & Tojo 2008).

Even the rather conservative commercial real estate investment industry has adapted to the fast advancement of information and communications technologies since the late 1990's and there are notable opportunities for individual investors to gain competitive advantages by efficiently utilizing i.e. internet and its applications to increase their efficiency and decrease operating costs. Furthermore the advancement of technology has hasted real estate transaction processes notably lowering the overall transaction costs. However the legal constraints are noted to slow down the implementation process of new technology in commercial real estate investment and especially the larger investment companies with dedicated legal departments or good access to outsourced legal services have managed to implement new technologies more efficiently than smaller ones. As Devaney & Weber (2005) state the organizations with the industry's most efficient management are often the ones which employ the best-practice technologies and also gain competitive advantages in the markets. (Huijbregts 2002.)

In addition to technology reputation is also one of the intangible resources possessed by business organizations usually reflected outside the organization through different brands managed by the company (Grant 2010, p. 127-128). Reputation represents how the potential customers see the firm in comparison to its competitors and thus the firm's reputational value is also created through the confidence towards itself it has succeeded to create in its customers (Grant 2010, p. 128; Jagersma 2010). This is why good reputation can also be considered as a critical requirement for successful business operations and as an important competitive asset representing how well the firm has managed to fulfill the expectations of its customers (Jagersma 2010; Sheehan & Stabell 2010). The total reputation is formed as the cumulative sum of the company's positive and negative customer experiences created which, if positive, is expected to further lure new and better quality customers for the company in the future and vice versa (Sheehan & Stabell 2010).

On the other hand, it has been often argued that a bad customer experience tends to have more impact on the overall customer experience than a good one and in total five good customer experiences would be required to compensate one bad experience to save the company's reputation (McGillicuddy 2012). Accelerated by the communication between customers and active sharing of customer experiences, bad customer experience will ultimately lead to vanishing of the firm's customer base. This phenomena is also called the mechanism of the invisible hand. (Sheehan & Stabell 2010). The importance of firm reputation is further emphasized by the fact that customers tend to actively take it into consideration in addition to the price of the offered products by the organization when making transaction decisions which justifies the statement that customers tend to seek for quality in their purchases as well (Sheehan & Stabell 2010).

Firm's often lack the understanding of the actual value of their brands among customers which has unfortunately often led to bad decision making especially in the banking industry which has since the beginning of the financial crisis in 2007 been characterized to have customers considering and emphasizing individual bank reputation very carefully before making any investment decisions (Jagersma 2010). Overall it can be stated that in order to succeed the business organizations are not only required to actively manage their reputation compared to their rival companies but also to adjust their business operations according to their desired way of building and maintaining their reputation through customer experience creation (Jagersma 2010; Sheehan & Stabell 2010).

In addition to being an important factor among their customers, firm reputation is an important factor also in the labor markets from where the business organizations attempt to hire the best available workforce characterized by the highest available productivity to support the organizations' business operations (Love & Singh 2011; Sheehan & Stabell 2010; Hepburn 2005). In order to perform the best recruitments it is recommended for the organization to create a lucrative brand as an employer which can sustain financially both better and worse times (Love & Singh 2011). The customer experience created for its customer base and the reputation created by it has however a strong impact on the interest of potential workforce towards the company as an employer as well, even though the organizations' customer and labor markets are separated which gives the organization the chance to maintain its image in the labor markets as a lucrative employer using i.e. its innovative working environment as leverage (Jagersma 2010; Sheehan & Stabell 2010; Hepburn 2005). Thus in general the company's reputation has a notable impact on both its competiveness amongst its rivals in the customer markets, as customers tend to consider both product quality and price when making transaction decisions, but also in the labor markets where the firms' lucrativeness is however also partly determined by its corresponding reputation in the customer markets.

Good brand management can act as a source for competitive advantages in the real estate investment industry as well as pointed out by i.e. Liu & Zhu (2013) and Khanna et al (2013). In their study focused on the real estate enterprises of the Jiangxi province of China Liu & Zhu (2013) argue that the weak brand of the local real estate enterprises caused by i.e. unclear brand positioning, construction lag, weak promotion and the lack of maintenance has provided a more prosperous position for the larger and more nationwide real estate organizations which have better management over their brands and have thus also managed to provide better returns than their local competitors in the Jiangxi province. Furthermore Khanna et al (2013) suggest that in the modern very competitive business environments active brand management in corporate real estate management is critical to sustain a competitive edge. Nowadays brand values are incorporated in corporate real estate business through both business strategy and portfolio management and take into account all the parties including employees, customers and investors as well (Khanna et al 2013). In the modern real estate business the most used value of brand management has been the "green" value which incorporates i.e. the sustainability, transparency, innovation, and people aspects of the industry (Khanna et al 2013).

The organizations' third intangible resource is its internal culture which is also referred as its organizational culture (Grant 2010, p. 127). Like the other intangible resources technology and reputation neither the organizational culture is written down in company balance sheets as it is relatively difficult to measure in monetary units (Grant 2010, p. 130). Organizational culture is also a relatively new concept which has become an important part of business operations only since the 1980's (Sadri & Lees 2001). Defining the concept of organizational culture is rather challenging as it tends to be highly dependent on among others the organization's industry, history, geographical location and the personality of its employees (Sadri & Lees 2001). Among others as one definition for organizational culture Sadri & Lees (2001) present the socially highly complex wholeness consisting of attitudes, values, expectations and behavioral norms dominant in a business organization. Like all the other organizations' internal resources, also organizational culture can be listed as a source for the organization's competitive advantages if it is possible for the organization to increase its business operation efficiency or performance by utilizing organizational culture (Slater et al 2010). Due to its social complexity organization culture can be considered to be impossible for competitors to imitate and thus a unique resource which makes it a critical asset for competitive advantage and enables the organization's strategic management to utilize organizational culture as a strong tool to support its business strategy (Klein 2011; Slater et al 2010; Sadri & Lees 2001).

The elements of a successful organizational culture can be considered to be symbols or similar physical elements representing the desired objectives of the organization which are in line with both the organization's and its employees individual values and are clearly presented and communicated for the company's employees by the organization's strategic management (Sadri & Lees 2001). Among others active collaboration between employees, invisible vertical organization hierarchy in practice and the organizational culture's flexibility and adaptability to fluctuating dominant market situations are remarkable factors supporting a successful and competitive organizational culture (Slater et al 2010; Sadri & Lees 2001). If the organization's business strategy and gained competitive advantage in the markets is highly dependable on well-functioning organizational culture, the importance of organizational culture's strategic management is emphasized even more. A successful integration of organizational culture to the firm's business operations requires the management often to guide both its business operations and organizational culture towards a common goal which is strongly determined by the fluctuations in the dominant markets. Furthermore the importance of organizational culture as a remarkable part of the company's strategy and competiveness can be illustrated by the advertisement banner set by the car manufacturing company Ford's year 2006 board of directors directed for the company's employees stating that organizational culture eats strategy for breakfast. (Slater et al 2010.)

The tangible and intangible resources possessed by an organization aren't however alone sufficient enough to make business operations possible as they lack the ability for independent functioning on their own. In order to utilize its tangible and intangible resources for business operations and thus to contribute towards the business strategy the organization requires users and utilizers for these resources. At this point in determining the organization's internal resources the human resources recruited to utilize the tangible and intangible resources for competitive advantages step in.

2.2.3 Organization's human resources

The organization's human resources consist of e.g. the competence, education, training, work experience, decision making, know-how, attitudes, mutual relations and other attributes of the management and the employees recruited by the organization which in terms of utilizing the organization's tangible and intangible resources contribute towards the firm's business operations (Kazlauskaite & Buciuniene 2008; Barney 1991). Human resources are immaterial capital and aren't thus written down in the company balance sheets like the intangible resources. The immateriality and lack of record in the balance sheet of organization's human resources can also be illustrated by describing that instead of owning its employees the organization purchases their services from the labor markets against a monthly fee in the form of salaries and wages (Grant 2010, p. 130).

Organization's human resources can be in practice considered to be rare as the relative value created by its human resources is often formed by the unique individuals possessing high cognitive abilities which were selected to be recruited from the labor supply by the organization (Kazlauskaite & Buciuniene 2008). Organization's employees and human resources aren't however solely constituted of the competences and working input of individual assets, but instead the mutual interactions of employees within the company, in terms of i.e. communication and collaboration, play an important role in the performance and efficiency of the company's human resources and thus has a strong impact on the utilized relative competitive advantage in the market gained by human resources utilization (Maracine 2012; Grant 2010, p. 131; Kazlauskaite & Buciuniene 2008).

As previously described the internal methods of working and values of the business organization's employees are also called the firm's organizational culture and it is thus recommended for the firms to promote their organizational culture as well in addition to its human resources in order to maximize the productivity of its employees and furthermore increase the gained competitive advantage in their business operations (Maracine 2012; Grant 2010, p. 131).

The largest potential to gain competitive advantage is however formed by the free will of the organization's employees which creates certain heterogeneity and uniqueness for the organization simultaneously disassociating it from its competitors (Chadwick & Dabu 2009). In addition to the organization's top management and other employees which are connected not only to the organization's own employees internally, the firm's human resources which are also externally connected to i.e. other companies and quarters possess the ability to collect and utilize valuable external data to guide the firm's business operations and to create competitive advantages (Collins & Clark 2003). Contacts and the availability of external data are extremely important in the very information intensive commercial real estate investment industry as they might provide competitive edge for its possessors in terms of more precise investment valuation and decreased external agency and service costs which would be otherwise needed to provide the required information as pointed out by i.e. Babawale (2013) and Clayton et al (2008). This social complexity of the interactions and causal relationships between people together with the historical differences between business organizations makes it almost impossible for rivaling organization's to attempt to imitate the firm's human resources (Kazlauskaite & Buciuniene 2008; Collins & Clark 2003). Furthermore the human resources can be considered to be irreplaceable because unlike technology, products and markets which tend to strongly deteriorate by time, the human resources can sustain fluctuations of time and are thus valuable irrespective of the observed moment of time (Kazlauskaite & Buciuniene 2008).

The human resources alone aren't however very efficient factors for creating competitive advantages for the business organization but they do instead require active human resources management in order to maximize the efficiency and performance provided by them (Chadwick & Dabu 2009; Kazlauskaite & Buciuniene 2008). On the other hand all the previously mentioned factors making human resources valuable in terms of competitive advantages associated together with the individual employees' free will make human resources management challenging but also extremely rewarding when performed well (Chadwick & Dabu 2009). Thus the sole purpose of human resources management is to generate as high value as possible from its human resources for the business organization (Kazlauskaite & Buciuniene 2008).

In order to achieve this goal the human resources management has to actively develop and utilize the competences, capabilities, efficiency and motivation of its employees towards common strategic objectives set by the business organization's strategic management (Kazlauskaite & Buciuniene 2008). Today the importance of human resources management is furthermore emphasized as among others the constantly accelerating advancement of information technology has contributed strongly towards the development of new companies and whole industries based on the possession of highly human resources management dependable know-how of firm's employees (Javalgi et al 2011; Sung 2008). All the way from the 1990's after the strategic importance of human resources as one of the most remarkable parts of the business organization's business strategy as a whole was finally acknowledged, human resources management has become more and more systematic and it has formed an even more important and integrated part of the business operations of organizations of all industries (Grant 2010, p. 130; Kazlauskaite & Buciuniene 2008).

Together in its wholeness the organization's internal resources are thus constituted of its tangible, intangible and human resources from which the human resources utilize the tangible and intangible resources with a particular objective to create output products of the firm's business operations. All these three internal resources are in practice what the organization possesses but which on the other hand don't take a stand on the question how the organization actually utilizes these resources. The questions how these resources are utilized by the organization and what are its actual capabilities in business operations are determined by the organization's organizational capabilities (Grant 2010, p. 127-131).

2.2.4 Organization's organizational capabilities

Firm's organizational capabilities bring together its tangible, intangible and human resources and guide their collaboration in order to create the desired outcome of the firm's business operations, for example a product or service, which can be then sold in the markets simultaneously producing as high value as possible for both its customers and stakeholders, or in other words as competitively as possible (Degravel 2011; Grant 2010, p. 131; Camison 2005; Barney 1991). In practice the very complex and dynamic organizational capabilities, as there are numerous different variables they have effect on, are used for managing and guiding the business organization's existing internal resources by the company's management (Degravel 2011).

Grant (2010, p. 131) also brings up the term core competence related to organizational capabilities as an important term to understand. According to Grant (2010, p. 131) the core competences constitute of especially those factors of organizational capabilities which contribute a relative majority towards creating the organization's competitive advantages. Thus a prerequisite for a successful business is the company managements' focus on especially recognizing and utilizing these core competences in their business strategies (Degravel 2011). Recognizing and utilizing core competences plays an extremely important role in today's business as the main goal of most of the market driven business organizations' operations is to create as high customer value as possible by guiding their organizational culture towards the primary goal of positive customer experience maximization (Vorhies et al 1999).

Furthermore core competences can be in market-driven business organizations thus defined as capabilities which in order to increase the firm's competiveness creates a relative majority of the customer value directly or the efficiency required to achieve the corresponding customer value indirectly (Grant 2010, p. 131; Vorhies et al 1999). Core competences are also the factors which enable the market-driven business organization to expand its operations into completely new markets or industries (Grant 2010, p. 131; Vorhies et al 1999). On the other hand recognizing especially the core competences has proven to be highly problematic as organizational capabilities become core competences only after the produced benefits of such capabilities have actually become realized into practice (Mooney 2007). This is if the case is good and in reality they ever are realized into benefits (Mooney 2007).

The utilization of core competences in capital markets and especially in commercial real estate investment has been researched by i.e. Capozza & Seguin (1999). In their study focused on real estate investment trusts Capozza & Seguin (1999) suggest that commercial real estate investors should limit their investment strategies to only a limited amount of different asset types in the management of which they are the most competent as portfolio diversification across different asset types has a negative impact on firm value and performance. On the other hand more diversified investors are noted to earn higher gross yields from their real estate investments as argued by i.e. Capozza & Seguin (1999) and Anderson et al (2015). The excess yields earned by diversification are justified by especially the investor's ability to choose between investing in asset types of differently performing markets simultaneously providing shielding against asset-type specific risks (Anderson et al 2015; Eichholtz & Hoesli 2015). These excess yields however are often at least partly offset by the higher interest costs and general and administrative fees of more diversified corporations providing a competitive edge in terms of lower operating expenses to more focused investors. Thus even though a more diversified investor has the ability to invest in a broader selection of opportunities the additional administrative expenses might eat up the higher yields associated with diversification and investing in opportunities outside the firm's area of core competency. (Capozza & Seguin 1999)

A good measurement tool for organizational capabilities can be considered to be the business organization’s capability to adopt to changes happening especially in the target markets’ customer surfaces (Prunea 2014; Ulrich & Lake 1991). In commercial real estate investment this means i.e. the investor's ability to utilize and readjust its core competences especially for the best performing asset types or geographic locations as pointed out previously. Furthermore the fluctuations in the performance of different asset types and geographic locations are often driven by trends and changes in the demand of customers (or in the case of real estate the demand of potential leaseholders). This adoptability can be made easier for the organization by creating internal processes to for example motivate and encourage the firm’s employees, which represent a critical part of creating sustainable competitive advantages for the company as described previously, towards reaching a common objective (Prunea 2014; Kazlauskaite & Buciuniene 2008; Ulrich & Lake 1991).

In practice the business organizations are today required to take advantage of their dynamic internal resources even faster, more skillfully and more innovatively by making new combinations of their existing resources compared to their competing market rivalries in order to achieve a relatively larger competitive advantage (Weerawardena & Movondo 2011; Camison 2005). Some of the organization’s internal resources such as technology tend to lose their capabilities or deteriorate by time which is also something the firm is expected to react to using its organizational capabilities (Degravel 2011). Thus the organizational capabilities can be considered to be a link between the firm’s internal and external attributes as it guides the company’s internal operations by utilizing its internal resources accordingly in order to answer to the happening changes in the company’s external environment manifested by i.e. fluctuations in the economic cycle and customer trends (Ulrich & Lake 1991).

Even though the organization’s focus of its business operations should especially be in utilizing its core competencies in its business strategy it is also important to recognize and manage its capabilities in which the company is relatively weaker compared to its competitors (Grant 2010, p. 145). Thus it is particularly important that the business organization’s structure is flexible and enables the carrying out of even the most rapid changes in its business operations when required in order to gain excess competitive advantages by serving the constantly evolving market requirements better than its competition.

Just like the company's other resources, also organizational capabilities require active management in order to enable successful business operations. Managing the company's organizational capabilities can be traditionally categorized into two different phases according to Degravel (2011). The first phase of management is to recognize and understand the factors which create the business organization's capabilities. From these recognized capabilities it is furthermore important to pick out especially those which are the most critical for the firm's business operations and have thus the most impact on the firm's financial performance. In other words it is important to recognize and utilize the core competences. Recognizing the factors creating business organization's capabilities and especially the core competences in practice can however turn out to be challenging as Mooney (2007) points out in her article.

In the second phase of managing organizational capabilities it is important for the organization to act according to the guidelines provided by the recognized capabilities and by using seven identified actions manage the business organization's portfolio of capabilities: (1) by acquiring missing capabilities which are important for the firm's business operations by investing in them, (2) by protecting the firm's current capabilities against deteriorating, aging and actions performed by the competitors which could potentially decrease the value of possessed capabilities, (3) by developing and innovating the firm's current capabilities in order to create new, upgraded and even more efficient and better performing capabilities which suit better for the requirements set by the dynamic markets with a particular focus in the target customer segment and competitor actions, (4) by utilizing its current capabilities to expanding the firm's business operations into new markets and opportunities and by adopting new business strategies through innovation, collaboration and new products, (5) by managing the firm's current capabilities by combining and modifying them to better suit the demand created by the evolving dynamic markets, (6) by maintaining a strategic architecture by constantly recognizing, creating and utilizing new capabilities and finally (7) by abandoning and divesting the capabilities which currently serve the firm's objectives poorly by for example selling them for competitors and spin-off companies or by outsourcing the corresponding functions (Degravel 2011).

Degravel (2011) furthermore expands this traditional two-phase management ideology of organizational capabilities by adding in a third phase of his own which he describes to be particularly important one in order to successfully utilize the organizational capabilities also to the firm's business strategy as well. Due to its importance he refers this third phase as the *"cornerstone phase"* which emphasizes its essentiality (Degravel 2011). The sole purpose of this cornerstone phase is to utilize especially the firm's core competences as part of the firm's performance by using them to drive its business operations.

To conclude the business organization's internal resources and organizational capabilities the firm's strengths and weaknesses in its business operations are derived from its relative organizational capabilities which utilize the possessed internal tangible, intangible and human resources in relation to the organization's external business environment including i.e. its competitor activities (Grant 2010, p. 140-144). However as already mentioned, it is also crucial to understand the firm's external environment in order to guide its internal business operations accordingly to maximize the organization's efficiency and performance (Ulrich & Lake 1991).

2.3 External business environment and strategy

In addition to comprehensively understanding the internal resources and capabilities of a business organization, the analysis of company's external environment is also crucial for creating a successful business strategy to operate with (Grant 2010, p. 63). Furthermore according to Grant (2010, p. 63) the organization's external environment, the environment of the industry it has decided to operate in in particular, has a great impact on the organization's both corporate-level and business-level strategies and thus on the organization's business operations as a whole. The importance of understanding the external market environment the company is operating in is playing an even more significant role due to the constantly growing dynamism of modern business environments compared to the traditional, more stable markets of the past (Liu 2013; Grant 2010, p. 98-99; Mason 2007; Feurer & Chaharbaghi 1996).

The constantly changing modern business environments are often characterized by low predictability and uncertainty caused by increasing complexity which makes it extremely challenging for the company management to operate under such circumstances (Liu 2013; Mason 2007; Coulson-Thomas 2005; Laird 1994). The company management is facing increasingly shorter decision windows, higher obsolescence risks, long-term unpredictability and increasing demand for information which is forcing the management to adopt new ways of performing business operations even more quickly in order to gain competitive advantages over their competitors (Mason 2007; Walsh 2005). However probably the largest difference when comparing today's modern business environments and the traditional, stable environments of the past, is the risen emphasis of customer-orientated business as one of the main keys of success for both the customer's and the product or service provider's operations (Liu 2013; Khamkanya et al 2012; Grant 2010, p. 62; Feurer & Chaharbaghi 1996). This is what makes the organization's success in differentiating itself from its market competitors in a positive way a key factor of overall successfulness in all modern business (Grant 2010, p. 99; Feurer & Chaharbaghi 1996).

In the commercial real estate investment industry suffering from high information asymmetry the amount of information possessed by investment organizations plays thus a vital role in their competiveness. Large differences in the amount of possessed information are especially observed between domestic and foreign investment organizations and this often provides also a notable competitive edge for the domestic organizations in transaction opportunities (Lambson et al 2004). Even though the transaction process of real estate transactions has become even shorter due to i.e. rapid technological advancement (Huijbregts 2002) a high amount of possessed information does still provide competitive advantages for investors as the amount of information has been researched to impact on the transaction decision windows of different investors (Lambson et al 2004). The importance of fast adaptation to i.e. dominant customer trends in commercial real estate investment is furthermore emphasized by the constantly behind demand lagging supply of rental markets which indicates that notable competitive advantages could be gained by organizations which are able to predict the changes in demand as realistically as possible and flexibly adjust their business strategies accordingly (Wyman et al 2011).

As stated previously, the organization's external business environment nowadays is very complex and by nature very unpredictable and full of uncertainty. Despite this it is still very crucial for the organization management to understand the business environment they are operating in to create a potential basis for economically successful business operations. But what does the external business environment actually consist of and how can the business organizations actually measure it? Grant's

(2010) book distinguishes two major categories which together create the company's business environment: the general macro-environmental influences and the industry environment. Furthermore it is often argued that the industry environment is the more crucial one of the latter two for the companies to understand in terms of creating competitive advantages over their competitors, but to completely assess its external factors they both have to be understood and monitored as well as possible and furthermore exploited. (Grant 2010, p. 62-63.)

2.3.1 Macro environment

The most commonly used tool to analyze macro environmental business factors is the so called PESTEL-model, which consists of first letters from the words political, economic, social, technological, environmental and legal representing the corresponding fields of analysis. These factors do have direct effect on the company's industry environment and often have a critical nature on determining the future threats and opportunities, or in short the future environment, the company is expected to be operating in (Grant 2010, p. 62; Walsh 2005). This makes the macro environment an important factor in determining the company's current strategies at each different state of time (Walsh 2005). Furthermore the effects of macro-environmental influences have to be considered industry-wise, as they don't affect homogenously on all the different industry environments, but instead the amount of impact is varying depending on the nature of industry (Grant 2010, p. 62). On top of industry-wise assessing the company has also to analyze the changes in its macro environment in relation to especially the core competences achieved from utilizing the internal resources it has previously recognized during its internal resource analysis (Walsh 2005).

Figure 2:2. Structure of the organizations' external macro environment (Grant 2010)

Political environment is created by the interference of the local national government in the business operations of local markets, through i.e. different regulations and taxation policies, and its presence is thus highly country dependable (Adomako & Danso 2014; Ekpenyong & Umoren 2010). However the government role and amount of its interference affecting the local markets continues to be a highly argued topic especially in the more developed markets such as the U.S. and Europe (Walecki 2013). One could easily think that a full-government controlled market would be the easiest and most efficient option, which often is not the case however. For instance the government of China's strong presence in the country's local economy has positively inspired the rapid growth of the economy, which has however simultaneously lead into growing social and environmental problems in terms of i.e. widening income inequalities and corruption (Walecki 2013). On the other hand, especially in the turbulence of the latest global economic crisis, it can be stated that the market mechanisms alone aren’t sufficient enough to accelerate the market growth again nor can they support sustainable business development which justifies the requirement of government interference at some level (Walecki 2013).

The political environment and corresponding risks involved is thus particularly important to be assessed when the company is looking for investment opportunities from markets in order to attempt to grow globally. Business organization wise the assessment is important because the government interference tends to create either additional expenses or savings for companies operating in local markets compared to other political environments. For example it might be cheaper to run the same business operations in China than in Finland because of this. Other factors playing an important role in the dominant political environment are for instance the current overall political situation, as i.e. general political instability, employment protection policies furthermore causing additional costs or savings and wars, insurrections and others such events have a major impact on the local business environment (Androniceanu 2013; Adomako & Danso 2014). Also corruption and bribery being a part of the local political business environment have the tendency to create additional expenses for companies operating in the corresponding markets (Adomako & Danso 2014).

The local governments can’t be however only seen as only a local authority giving the frames for business operations, but they might also possess valuable tangible resources such as financing and land which could prove to be profitable for the company’s local business operations as well (Ye et al 2011). Furthermore political decisions made by the local governments do have important impact on the demographics of the local people in terms of promoting and investing in i.e. education and health, which are both desirable factors companies are actively seeking for to support their business operations (Li & Liang 2010; Choudhury & MacPhee 1992). Nowadays sustainability has proven to become more integrated and important part of government politics but the attitudes of local politics do still vary notably between countries in terms of attempting to conserve or secure i.e. the local natural resources and energy which act as inputs for various business operations (Vanags & Butane 2013; Brown & Ellison 2011). (Adomako & Danso 2014; Walecki 2013; Al Khattab et al 2012; Ekpenyong & Umoren 2010).

As previously stated, the economic business environment is strongly driven by the local government’s political decision-making and interference with a goal to increase the country’s economic growth through growth in its gross domestic product or more briefly GDP (Walecki 2013; Domac & Kandil 2002). However it is the fluctuations in GDP output levels that determine the large picture through supply and demand in the local economy which is a major driver of economic growth in most of the industries while some business activities might be thriving no matter the economic situation (Dettwiler et al 2006). Furthermore the currency exchange rates determining import and export attractiveness, interest rates driving investment volume and inflation representing the increase in monetary supply are important factors supporting the actual GDP growth and the interest rates of external financing (Saymeh & Orabi 2013; Domac & Kandil 2002).

Inflation is often controlled by the government’s monetary policies and target levels for inflation have been set in i.e. the Eurozone (including Finland) and Sweden, but the higher unemployment rates and limited production capacity resulting from inflation restrictions using i.e. tightened financing policies are actually in practice reducing the economic growth (Jenkins 2008; Domac &

Kandil 2002). Companies are often seeking stable and reliable economies to base their operations in and a restrained rate of inflation is one factor supporting this economic stability. Companies do also require financing for their day-to-day business operations which makes the local availability of financing another important factor to take into consideration (Massa & Zhang 2013). In the worst case the high cost and low availability of financing might decrease the overall investment volume of companies to a point the local country's GDP growth starts to decline (Massa & Zhang 2013; Jenkins 2008). However, as described earlier in the phase of assessing the company's tangible internal resources, organizations could gain competitive edge on difficult times when the amount of available financing is limited using their own equity in terms of cash and liquid assets in their business operations instead (Massa & Zhang 2013; Fresard 2010). Thus in terms of competitiveness it is also important for the company to be debt-equity flexible and not to completely rely their operations solely on either one only especially in less capital intensive industries if any way possible (Massa & Zhang 2013).

The strength of the local currency is also an important determinant for the local economic growth. The basic rule of thumb is whenever the local currency is strong compared to other currencies the cost of importing products is relatively low leading to increasing amount of import activities and thus the trade balance representing the import-export rate is in deficit and vice versa (Alemu & Jin-sang 2014). Low costs of importing do also promote pressure for deflation which is often good considering the government inflation level goals also promoting the governments (or monetary unions) to attempt to control their currencies wisely (Alemu & Jin-sang 2014). Together interest rates (cost of capital), inflation rate and currency rates have a strong influence on the corresponding country's GDP fluctuations. They do also however have a high correlation between each other, as i.e. currency and interest rates have a strong influence on inflation rates, which suggests that the government authorities have to actively balance their economic policies accordingly and no simple solution for an optimal economic policy exists (Alemu & Jin-sang 2014; Saymeh & Orabi 2013; Domac & Kandil 2002). The analysis of currency risk and trade balance deficit on top of the inflation and interest rates associated to a specific country together determining the country's GDP growth rate is something every rational business organization has thus to perform before expanding into foreign markets in order for the expansion to financially succeed.

Social environment represents the corresponding market's demographic factors, attitudes and trends. Unlike political and economic business environments, which affect mostly on national level, the social environment might vary a lot between different geographical submarkets within a country. The demographic aspect takes insight into the amount and structure of the local population which has direct effects on i.e. the supply and quality of local workforce that companies use as internal resources of their business operations (Ghadar 2014; Jaimovich & Siu 2009; Kazlauskaite & Buciuniene 2008). Ghadar (2014) has identified four major demographic characteristics which will influence business operations during the next upcoming decades: rapid increase in the world population, decreasing of overall population growth rate, increase of geographical asymmetry in population growth and finally the constantly growing average age of the current population. Even though the total world population is increasing, which simultaneously creates additional supply of available workforce to the markets furthermore creating pressure for the employment costs to decrease if the demand is expected to remain the same, vast of the population growth is concentrated on less developed countries which tend to have inadequate resources to manage such growth with a similar efficiency as more developed countries could (Ghadar 2014). Simultaneously the more developed countries are struggling with constantly aging population accelerated by continuously decreasing population growth rates (Ghadar 2014; Jaimovich & Siu 2009). The aging population structure of the more developed countries does also have an impact on the productivity of the local workforce during different phases of the economic cycle as Jaimovich & Siu (2009) suggest. Furthermore Gomez & de Cos (2008) show in their research that business environments consisting of relatively more mature people are contributing more towards the country's GDP and are thus more productive than markets consisting of more younger populations.

The demographics of the local population isn't however the only social factor having effect on the local business environment. The healthiness and education level of the local population does also contribute towards country's GDP growth and domestic demand as i.e. Li & Liang (2010) suggest that the good availability of primary and secondary education in East Asia during the 1960-1990's has supported the locally rapid economic growth during the corresponding years. Some empirical research including the one performed again by Li & Liang (2010) suggest that health promotes local economic growth even more than education, but additional research has also found correlation between the latter two suggesting that the level of education and healthiness tend to fluctuate hand by hand (Li & Liang 2010). As both healthiness and education of the local population have significant empirically justified connection on the local economic growth business organizations should take them and their expected course in the future into consideration as well in analysis of both the organization's current and desired business environments. Cornell (2012) however points out that the rapid internalization of labor and capital markets within for instance the European Union during the last decades has opened up the previously strictly country-limited borders making it possible to geographically widen the concept of social business environments in terms of workforce availability and customer markets. Thus the social environment in the future is expected to be less and less limited solely on country borders and to be even geographically wider as the transportation technology moving people around even globally is expected to be constantly developing in the future as well.

The fourth macro-environmental factor is technology (Grant 2010, p. 65). Especially advancement of technology in terms of i.e. development of computers, media industries and telecommunications has been a major influencer causing market turbulence in the external business environments which makes the technological aspect a rather topical one (Mason 2007). According to i.e. Ward & Rivani (2005) and Pulaj & Kume (2013), the external technological environment consists of the government research & development investments, efforts made by different industries to advance technology, new innovations, transfer rate of technology, life cycle and obsolescence rate of new and current technologies, energy politics and finally the previously mentioned advancement of information and mobile technologies and especially the internet. Investing in new innovations through research & development and reorganizing current products and processes to meet the standards set by the current technological environment can be considered important factors for companies to consider in order to fare with the constantly changing technological environment (Pulaj & Kume 2013). Furthermore according to Pulaj & Kume (2013) uncertain market environment accelerates the research & development investments performed by varying business organizations as they seek differentiation in order to stand out from the market competition in their favor.

The fifth macro-environmental factor represents the actual natural environment the business organization operates in (Grant 2010, p. 65). The natural environment consists of the local weather, climate and expected climate change in the future which all have quite measureable direct and indirect effects on the local industries, organizations and even on whole societies (Linnenluecke & Griffiths 2010). Especially the global warming has recently gained a lot of attention from different parties due to its heavy impact on i.e. societies, infrastructure and desertification (Dos Santos 2011). Furthermore according to Dos Santos (2011) the consequences of global warming are here to stay and it is on the responsibility of all the governments, business industries and consumers together to attempt to mitigate its impacts. Bardsley & Sweeney (2010) also point out the importance of long-term natural sustainability in business operations because as the natural situation gets worse it is increasingly more difficult to attempt to correct the natural state using short-term means. Some industries tend to be however more correlated with climate change than the others and for example Pielke (2008) describes the climate change caused by humans to have created catastrophic losses in real estate and Grant (2010, p. 64) presents the global warming to be a vital issue for i.e. automobile manufacturers. Furthermore Bardsley & Sweeney (2010) describes the significant impact on available natural resources resulting caused by the changes in the natural environment with empirical research data from the Mediterranean. Unfortunately the current business industries are often driven by mostly economic and technological means to accelerate innovation and to gain competitive advantages but which are usually incapable to deal with drastic changes in the natural environment (Linnenluecke & Griffiths 2010). Thus it is extremely important for business organizations to adapt into the current natural environment by i.e. decreasing their vulnerability to changes in the natural environment to mitigate risks and gain competitive advantage especially in industries which are more sensitive to changes in the natural environment (Bardsley & Sweeney 2010; Linnenluecke & Griffiths 2010; Pielke 2008). Furthermore the local governments have the tools to mitigate human-caused impact on the climate by using legal means to accordingly restrict climate straining operations by using i.e. legal means (Bardsley & Sweeney 2010).

Finally the sixth factor of the macro-environmental assessment used in the PESTEL-model is the legal aspect which also varies notably by geographical location. The legal environment features the government legislative and regulatory authorities together with the common or court-developed laws having impact on the organization's domain (Laird 1994). The local governments create external legal barriers for local business organizations and thus restrict organizational alterations by supporting the development of some organizations and by slowing down the development of others which often the affected companies attempt to adapt to by altering their business strategies (Laird 1994; Wong 1991). In practice the direct and indirect impact can be seen in ownership structures, payments of dividends, external availability of finance leading to costs of capital, and market valuations of local organizations which all have notable effect in the company's competitive advantages (Krishnamurti et al 2005). Furthermore according to Wong (1991) legal government regulations have also strong impact on the export and import feasibility of companies and thus on the country trade balance as well. Business organizations do usually have their own internal parties, i.e. their own legal departments, defined solely to create connections to local legal authorities and to monitor the possible changes in legislation in order for the organization to adapt as quickly as possible to occurring legal threats and opportunities (Laird 1994). Furthermore in some cases even a total withdrawal from certain markets is necessary due to expected or unexpected alterations in the local legislation as can be seen in the case of prohibition of asbestos which hit especially the constructing business and asbestos manufacturers in the 1990's (Laird 1994; Issacharoff 2002).

Together the political, economic, social, technological, natural and legal environmental factors create the external macro environment the business organization is determined to operate in. These factors can be considered to be universal in the local business level, which in practice means that all the local organizations competing in the same markets are equally affected by the fluctuations in the macro environment. The competitive advantage of individual organizations is as described thus created by the organizations' ability to utilize the currently effective macro-environmental situation and its flexibility in terms of adaptation to macro environmental fluctuations. Even though the macro environment gives frames for the company's operations the industry environment is what defines the organization's operating environment through competition, customers and suppliers (Grant 2010, p. 64).

2.3.2 Industry environment

The industry environment, or the so called proximate environment, of a business organization is which ultimately determines the industry's levels of profitability (Grant 2010, p. 65). By recognizing and understanding all the factors the company is expected to face in its industry environment the company may position itself according to where there are as few as possible competitive forces creating challenges for the company (Grant 2010, p. 81). The company could, for example, focus on only a small market segment which current needs aren't satisfied properly by the established products and thus a profitable space for new ventures exists. Furthermore according to Grant (2010, p. 82) in order to effectively position themselves the companies have also to adjust themselves to expected future changes in the dominant competitive forces affecting the industry. The company's and its products' lasting of time is as previously pointed out a key factor in creating sustainable business operations which will be profitable not only now but in the future as well.

At this point it is important to understand the distinction between the two markets all traditional companies are expected to compete in: the output markets, where the company sells its products to its customers, and the input markets, where the company buys its raw materials and services from other suppliers in order to produce its own goods (Grant 2010, p. 75). For example commercial real estate investment companies produce leasable premises as outputs and require i.e. capital, purchasable assets, maintenance services and information as inputs. Most of modern companies act simultaneously both as customers of their suppliers and suppliers of their customers. Furthermore it is important to understand the theory driving the strength of individual parties' buying power. Buying power describes the organization's ability to have impact on the quality and price of goods purchased from its suppliers. According to Grant (2010, p. 75-77) the buying power is determined by the buyers' relative bargaining power and price sensitivity.

Relative bargaining power consists of the buyer's size and concentration compared to its suppliers. As the amount of buyers decreases and the size of their purchases increases the costlier it will be for the supplier to lose buyers. The suppliers' high risk of losing buyers increases the buyers' bargaining power. In addition to size and concentration the information about suppliers' costs, prices and product quality possessed by the buyers increases their bargaining power as they can easily appeal on the relatively better service provided by competing suppliers. Finally the business organization's vertical integration ability, which describes the organization's ability to produce the product or service by their own at set costs and quality, increases their bargaining power as the organization's option for outsourcing is to supply the required product by themselves. (Grant 2010, p.76-77.)

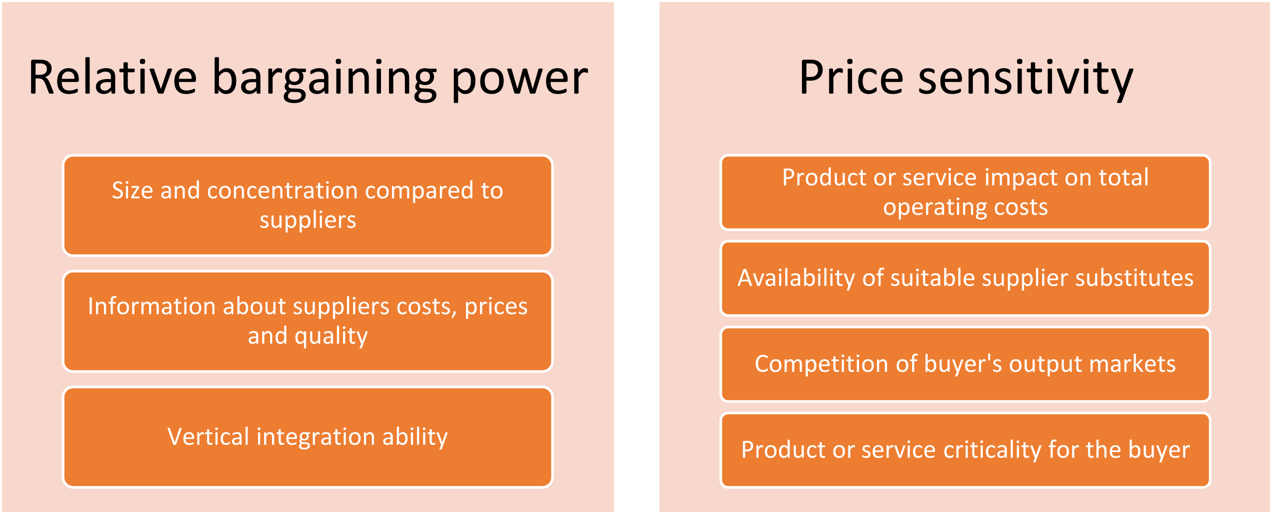

Figure 2:3. Structure of the organizations' relative bargaining power and price sensitivity (Grant 2010)

The second part determining the organization's buying power is its price sensitivity. If the organization's total costs for its business operations are strictly dependent on a given product or service the more price sensitive they are expected to be for them. On the other hand the organization is also expected to be more willing to switch its suppliers when prices are increased if suitable substituting suppliers exist. Increased competition in the buying organization's output markets also creates pressure for the business organizations to minimize their procurement costs in order to sustain relative competitiveness. This furthermore creates pressure on the supplier side to lower their prices. Finally the criticality of a product or service provided by the suppliers decreases the price sensitiveness of buyers as they are in practice forced to purchase such services from them in order to maintain their current business operations. (Grant 2010, p. 76).

Understanding the buying power of the organization itself and its customers helps the organization in assessing its industry environment. In order for a business organization to analyze its external industry environment the organization has to also distinct the most crucial external influences from less important factors having impact on its market performance (Grant 2010, p. 64). For this analysis of the company's potential customer base, suppliers and competition in total defining the industry environment is required (Grant 2010, p. 64).

Figure 2:4. Structure of the industry environment analysis (Grant 2010)

First, the main objective and basis for all modern business is to create value for its customers in the company's input markets and thus the organization has to understand most importantly the behavior of its potential customers (see i.e. Coulson-Thomas 2005; Liu 2013; Wang et al 2009; Grant 2010, p. 62-75). According to i.e. Gans (2002) each time customers enter the market they are expected to choose the supplier they think is most likely the best based on their previous transaction experiences. Thus company's customer orientation does have a direct correlation with its business performance as empirical studies have shown, which furthermore emphasizes the importance of customer behavior understanding (Wang et al 2009). With a simplified example, the company successfully creates value for its customers when they are willing to pay the market price of the company's product simultaneously as the company gains profits by paying less costs for the production of the product under transaction (Grant 2010, p. 65; Wang et al 2009). The more value for the customer the company manages to create, the more customers the company is expected to attract, as the customers tend to i.e. communicate among others and give positive feedback for each other thus increasingly expected to grow the company's customer base (Wang et al 2009; Sheehan & Stabell 2010; Gans 2002). The cumulative positive customer experience furthermore increases the company image through its brands as described already in the chapter assessing internal intangible resources (Wang et al 2009; Grant 2010, p. 127-128).

For comprehensive customer analysis people's approaches, attitudes, priorities and perspectives to be the key factors for the organization to understand in customer behavior and organizations should guide their operations to provide customer satisfactions with these areas in focus especially (Coulson-Thomas 2005; Pehrsson 2011). Furthermore i.e. Pehrsson (2011) and Gans (2002) describe barriers in customer accessibility created by competition as one of the major industry environmental factors which requires assessing. The company management has thus to decide at which level it will imitate its competitors and where to differentiate itself in terms of i.e. after-sales and customer solution services and customer relationship management (Pehrsson 2011; Gans 2002). Mimicking industry competition and thus following the industry operation standards is also expected to decrease business risks and vice versa attempts to differentiate from competition increases the company's risks involved in the customer responsiveness (Pehrsson 2011).

Another field of industry environment assessment is the analysis of suppliers and the company's input markets (Grant 2010, p. 64-75). The business organization's relationship to its suppliers is based precisely on the same theories as the business organization's relationship to its customers (Grant 2010, p. 77). The only exception is that in this case the business organization itself acts as a customer for its external suppliers.

Supplier selection and management has become increasingly more critical part of competitive advantage of especially business operations which are strongly depending on outsourced services (Chen & Yang 2006; Lasch & Janker 2005). Outsourcing of services has drastically increased due to the fast growth of internet technologies leading to even increasing intensity of international competition (Lasch & Janker 2005). Lasch & Janker (2005) presents that this has forced business organizations to concentrate solely on their core business operations to cope with the competition furthermore increasing organizations' proportion of purchases from external suppliers specialized especially in providing the sought service or product (Lasch & Janker 2005). The high level of dependency of suppliers plays thus a critical role in the company's business successfulness and thus justifies the statement of supplier analysis and external service quality control importance (Chen & Yang 2006; Lasch & Janker 2005).

Based on the previous arguments business organizations have thus to show increased concern in supplier selection in order to maximize the gained competitive advantage from reduced outsourcing costs, quality improvements and faster delivery rates (Chen & Yang 2006). After the selection phase it is also important to actively search for new suppliers and assess their performance compared to the competition and make decisions accordingly to sustain the gained competitive advantage from supplier management (Chen & Yang 2006). The supplier selection, however, can prove to be difficult as the process involves decision making based on multiple quantitative and qualitative criteria and the company's preferences are expected to change as changes in their other external or internal factors occur (Chen & Yang 2006; Lasch & Janker 2005). Basic industry-standard level services are often more available and delivered than specialized and more sophisticated services (Grant 2010, p. 77). Thus the bargaining power of suppliers providing industry-standard level services is very limited which the business organizations should take advantage of (Grant 2010, p. 77). On the other hand the suppliers of more sophisticated and less available services tend to have large bargaining power over their customers which makes purchasing of these services usually more expensive for the customers (Grant 2010, p. 76-77).

On top of its customers and suppliers the business organization has also to analyze the current competition in the industry environment it is currently operating or looking to enter in. Grant (2010, p. 69-70) presents the so-called "*five forces of competition framework*" which has been widely used for classifying and analyzing the many industry factors having impact on its competition. This framework consists of the so called vertical and horizontal competition. Vertical competition is created by bargaining power of the business organization's suppliers and buyers while horizontal competition consists of the company's existing competitors, potential new competitors and the threat of possible substitutes (Grant 2010, p. 69-77).

Existing industry competition

In most of the industries the existing industry competition is having the most impact on the level of competition the business organization is expected to face as in extreme cases the aggressiveness of competition might even lead to companies sell products for less than their production costs leading to industry-level losses (Grant 2010, p. 73; Geroski 2003). Industry competition, often also called as rivalry, stands for an individual company's behavior towards other companies operating in the same market (Gonzalez-Moreno & Saez-Martinez 2008; Chen 1996). In the real estate investment industry rivals are the various real estate investment companies which seek to lease space for potential leaseholders and to purchase and sell assets from other investors to generate profits. The industries have only a limited capacity to sustain companies and results from industry competition determine the corresponding company distributions of market share and size (Staroselskaja 2011; Burke & van Stel 2013; Chen 1996). In practice all the rational companies of the same market attempt by one way or another to gain a supreme competitive position in the industry by understanding, analyzing and counter-reacting to the performed actions of their competitors better than the others (Gonzalez-Moreno & Saez-Martinez 2008).

All the business organizations operating in the same market aren't however actually competing against each other as they might have a different market focus (Chen 1996). As the companies usually have also limited amounts of resources they often limit their observations to a few competing companies only which by strategy resemble the observing company the most and are thus the main competitors of the observer (Gonzalez-Moreno & Saez-Martinez 2008; Chen 1996). These strategically most resembling companies are often also referred as strategic groups (Gonzalez-Moreno & Saez-Martinez 2008; Chen 1996). For example a commercial real estate investor focused only on residential assets isn't typically competing against retail or office investors and vice versa. The market focus could be also based on i.e. geographic location. In practice efficient industry competition analysis isn't thus only about recognizing the competitors in the market, but instead recognizing especially the main competitors and analyzing their attributes and behavior towards the observing company itself (Chen 1996). However, as Gonzalez-Moreno &

Saez-Martinez (2008) point out, empirical studies have shown that companies tend to choose the largest and best performers in the whole market as their main rival despite their strategic group in addition to the most strategically resembling companies. The company's prerequisite for analyzing its strategic group and competition is however the complete understanding of the company's key factors providing its competitive advantage as it is impossible to know who the company is actually competing against without knowing its own strategic key factors (Chen 1996).

After recognizing the existing competition in the company's industry and submarkets and more precisely in its own strategic group, the company has several tools for assessing its competition. Firstly the market competition can be measured by concentration representing the number and size distribution of competing companies in the particular market (Grant 2010, p. 73-74; Chen 1996). In markets with only a few competitors prices are usually strictly coordinated among the few companies and competition is often formed only on advertising, product development and promotion (Grant 2010, p. 73-74). As the market concentration decreases prices tend to become more difficult to be controlled by individual companies and prices become more and more market-determined (Grant 2010, p. 74; Beck et al 2012; Staroselskaja 2011). Evidence of market concentration alterations' (caused by i.e. company market exits and entries) impact on overall market profitability, as different authors have shown varying empirical results, is rather contradictory and appears to be dependent on multi-dimensional factors considering competition and the nature of the industry itself (Sharma 2011; Staroselskaja 2011; Grant 2010, p. 74).

Competitor diversity has also a role in determining the amount of existing market rivalry, as similarities in company roots, goals and costs together forming their strategies tend to decrease price competition based on identical business basis of the companies. On the other hand differences in the previously mentioned factors tend to create increased competition as seen in the case of European car industries for example. Furthermore globalization has had a significant impact on creating differences between market rivals thus also increasing competition furthermore simultaneously accelerating global production performance. (Grant 2010, p. 74).

In addition to the company-level diversity also product-level diversity has impact on the overall competition. More homogenous product the market competitors are producing the more likely the customers are to switch between these corresponding products of different companies simultaneously also increasing competition and driving the markets towards their state of equilibrium (Grant 2010, p. 74; Egli 2007; Liu & Zhang 2013). Furthermore the amount of product diversity decreases the customer's bargaining power in terms of price they are willing to pay, from whom they are going to and when they are going to buy the product (Liu & Zhang 2013). Thus rational companies are encouraged to seek opportunities for differentiation in order to gain more market share from less-competed market segments (Liu & Zhang 2013). It is also important for the companies to understand that they don't necessarily have to enter completely new product markets, which would significantly increase their research and development costs, but instead vertical differentiation is often a rather lucrative choice (Liu & Zhang 2013). Using vertical differentiation the company may offer the same modified product to serve better different quality or price - considered market segments.

Exit barriers and excess capacity possessed by business organizations has also a part in determining the overall market competition (Grant 2010, p. 74). Sometimes the supply and demand of markets aren't in equilibrium and the markets are guided by the so called invisible hand to reach the state of equilibrium through market exits and entries (Karakaya 2000; Burke & van Stel 2013). The problem of excess capacity correlates strongly with the economic cycles, which determine the market demand the organization is expected to answer to (Grant 2010, p. 74; Hainaut 2012). When the level of industry's market demand is low companies have excess capacity simultaneously creating additional costs for the company and harming its competiveness (Karakaya 2000; Grant 2010, p. 74). If the company is unable to freely give out the excess capacity from the industry, market barriers to exit the market exists (Karakaya 2000; Hainaut 2012; Grant 2010, p. 74). These barriers may be formed from i.e. employee protection through contracts and policies, durable and specialized resources or large overinvestments in production (Grant 2010, p. 74). Long-term commitments made by the company are the most significant factors of creating barriers to exit (Karakaya 2000). Barriers to exit are also highly depending on the industry and product categories. Thus the companies have to assess the costs for giving out their excess capacity compared to the losses created by costs of running excess capacity in markets without sufficient demand to support such capacity (Karakaya 2000). Furthermore the company's future outlooks of the industry have also strong emphasis on the company's decisive exit decision and together all the factors creating barriers to enter or exit the markets slow down the market process to reach again its state of equilibrium (Burke & van Stel 2013). These factors provide good arguments for the fact that exit barriers are important factors for the business organization to assess in order to avoid excess costs and take edge on their competitors, in other words to create competitive advantages.

Finally the cost conditions representing fixed to variable costs ratio and economies of scale of the industry competitors has to be analyzed (Grant 2010, p. 75). The fixed to variable costs ratio measures how much of the company's operating costs are formed by its fixed costs compared to its variable costs which changes by the amount of customers (Grant 2010, p. 75). The amount of fixed costs does usually directly determine the potential amount of production capacity the company has and fixed costs are thus a powerful tool in deterring new market entrants by building excess capacity (Yang & Anderson 2014). Furthermore as the ratio of fixed costs compared to variable costs increases the companies are even more willing to take on marginal business operations which cover only their variable costs leading to intensive price competition and ultimately to losses on the whole industry level (Grant 2010, p. 75). These so called economies of scale can be used for competition by having excess capacity to, if required, efficiently deterring new market entrants or attempting to push out existing competitors from the markets by price competition in order to gain larger market share for the company itself (Yang & Anderson 2014; Grant 2010, p. 75).

Threat of new industry entries

Currently established industry competitors aren't the only ones threatening the business organization's market share. When there are possibilities to gain market share in the industry and the cost of capital to enter and operate in the market are lower than the expected return on capital, the industry will attract new companies seeking to enter the markets from outside the industry (Grant 2010, p. 71). However the companies seeking opportunities to enter new lucrative markets have to assess the costs related to barriers to entry, which represents the advantage gained by the already established companies compared to potential entrants, when making expansion decisions (Grant 2010, p. 71; Karakaya & Parayitam 2013; Pehrsson 2009; Robinson & McDougall 2001). Especially when the barriers to entry are low the already established industry competitors might be threatened enough by the possibilities of new entrants to the level that they will be already performing their operations at the market equilibrium level where the cost of capital meets the return on capital (Grant 2010, p. 71). If the barriers to entry are absent from a particular industry the market supply, demand and prices are expected to be constantly at their equilibrium state. On the other hand high barriers to entry, most commonly caused by high capital requirements and needs for advertisement, effectively restrict the access of new market entries and thus results in changes of strategy and creates excess profits for the established companies (Grant 2010, p. 71-73; Karakaya & Parayitam 2013; Karakaya & Stahl 2009). Barriers to entry are highly dependable on the resources and capabilities of companies seeking to enter the industry and the intentional actions of the already established companies to artificially create barriers to enter the industry (Grant 2010, p. 73; Karakaya & Parayitam 2013). Companies entering the industry by differentiating from other industries might be however able to enter the industries with notably lower barriers as they already fulfill some of requirements to cross these barriers (Grant 2010, p. 73). Thus the barriers to entry can be considered the main factor determining the threat level of entries of new market competitors (Grant 2010, p. 71). Sources for barriers to entry can be categorized into capital requirements, economies of scale, absolute cost advantages, product differentiation, distribution channel accessibility, government regulation and retaliation of the established rivals (Grant 2010, p. 71-73; Karakaya & Parayitam 2013).

Capital requirements, as mentioned previously, can be considered to be one of the factors creating the highest barriers to entry in new industries (Grant 2010, p. 71-73; Pehrsson 2009). Especially research & development tends to create huge capital requirements for entering new markets as i.e. the duopoly of Airbus & Boeing have shown in the aircraft manufacturing industry (Grant 2010, p. 71). A new market entrant would require notable amounts of excess capital to be spent on research & development expenditures to cope with the competition which simultaneously has drastic effect on the company's own competitiveness. The barriers to entry created by capital requirements are however highly dependent on the corresponding industry. In the service sector for example capital requirements for setting up businesses are usually considered to be very low (Grant 2010, p. 71). Also the emerging opportunity to use e-commerce as main source of business operations has lowered the barriers to entry of many industries as the initial setup costs for e-businesses is usually rather low (Grant 2010, p. 71; Karakaya & Parayitam 2013; Karakaya & Stahl 2009).

As already mentioned previously, companies operating in industries which require large-scale operations to cope with the competition form barriers to entry in terms of economies of scale (Grant 2010, p. 72; Schmalansee 1981; Pehrsson 2009; Saviotti & Pyka 2010). This is common especially in capital, advertising and research intensive industries and the scale the market entrant is expected to initially operate in increases by time (Grant 2010, p. 72; Saviotti & Pyka 2010; Pass et al 1994). Such industries require the organizations seeking entry to make decisions whether to enter and target a small scale of market share with high unit costs or to target a large market share and to sustain the costs of excess capacity (Grant 2010, p. 72). Economies of scale doesn't necessarily have to be measured in tangible resources, but also i.e. the amount of knowledge possessed of established industry rivals creates sort of economies of scale as the new entrant is expected to have such knowledge in order to reach the competiveness of established companies (Saviotti & Pyka 2010).

Product differentiation has impact in industries where the offered products are differentiated and existing companies have established brands and customer loyalty among the markets (Grant 2010, p. 72; Munoz 2010; Pehrsson 2009). The barriers to entry in such industries forms from the costs required for intensive advertisement and promotion for the entrant to establish a brand for its product and gain market share which are on par with the established competitors (Grant 2010, p. 72; Munoz 2010; Robinson & McDougall 2001). Furthermore according to Munoz (2010) and Robinson & McDougall (2001) the established sunk costs of companies and entrants have impact on the level of barriers to entry. As mentioned in the economies of scale markets requiring intensive advertising to cope with the competition tend to benefit early movers and the later entrants have to cross higher barriers in order to enter the markets (Munoz 2010; Saviotti & Pyka 2010; Grant 2010, p. 72-73). Entry seeking companies may however also use product differentiation as their advantage as new innovative products tend to decrease the barriers to entry new industries (see i.e. Pehrsson 2009; Karakaya & Parayitam 2013; Pass et al 1994).

Despite the fact that the existence of distribution channels has notably increased the efficiency of society's resource allocation (Jantan et al 2003), the distribution channels available in an industry do also create obstacles for companies seeking to entry the markets (Grant 2010, p. 72; Pehrsson 2009). Distribution channels are required for the companies to access their customers. The available distribution channels are difficult to analyze before entering the markets and there are several reasons why retailers could be reluctant to distribute the new entrant's products (Grant 2010, p. 72). Additional fixed costs from new products and the retailers' tendency to avoid risks assorted to them efficiently create entry barriers (Grant 2010, p. 72). The distribution capacity is also limited and the available capacity might already be strictly controlled by the established companies making it difficult for the potential entrant to reach its potential customers (Pehrsson 2009; Grant 2010, p. 72). In addition to the traditional distribution channels, internet and e-commerce have been proven to be very efficient channels to reach customers and as they have become increasingly common also the barriers to entry related to distribution channels have notably decreased (Karakaya & Parayitam 2013; Jantan et al 2003; Grant 2010, p. 72).

Despite having strong effect on the industry's macro level government regulations tend to have a strong influence on industry-level factors as well. Regulations create barriers to entry in forms of required licenses to conduct business, exclusive trade contracts between selected companies and the government, patents, copyrights and other protected intellectual property rights create major barriers for new entrants to cross (Grant 2010, p. 72-73; Lutz et al 2009). Additionally regulatory requirements set for new market entrants considering i.e. environmental and safety standards tend to create competitive disadvantages for them compared to already established organizations as the regulations usually tend to have more impact on the new organizations entering the industry (Grant 2010, p. 73). Furthermore as new industries are created by i.e. technological advancement new government regulations have to be created in order to guide and control the markets (Saviotti & Pyka 2010). As a well-known Finnish corporate and banking person Björn Wahlroos has stated there are no nicer things for large business organizations than additional regulations as they effectively eliminate the competition from smaller companies (Taloussanomat 2014). The statement regarding strong influence of government regulations on entry barriers statement is also supported by the research of Djankov et al (2002). On the other hand, according to i.e. Lutz et al (2009) and Van Stel et al (2006, 2007) companies have reported that government regulations tend to constitute barriers to entry only on a minor level and these barriers would have little to no influence on market entry decisions. Thus it can be stated that the barriers to entry created by government regulations seems to be strongly dependable on the nature of the corresponding industry.

Finally, the already established companies don't usually stay motionless when a new competitor is attempting to enter their markets but instead they attempt to retaliate the entry by i.e. aggressive price competition, additional advertising and promotion of sales or even by juridical means through litigation creating notable competitive disadvantages for the new competitor (Grant 2010, p. 73; Pass et al 1994; Karakaya 2002). Smart market entrants usually attempt to avoid initial retaliation by accessing smaller and less visible market segments first and later on attempt to reach other market segments as well using the already established smaller segment as their advantage. (Grant 2010, p. 73). I.e. Karakaya (2002) describes that new business ventures attempting to enter markets where established companies are earning relatively high profits the amount of retaliation is expected to be highest. Despite this Robinson & McDougall (2001) have stated, that industries which are highly dominated by large established companies and which thus have otherwise relatively high barriers to entry and thus also expectedly enjoy from relatively high returns (Grant 2010, p. 73), might be the most lucrative for new competitors to attempt to enter to. This is based on the argument that, as large dominant firms tend to focus their operations on maintaining the established large profit margins instead of attempting to retaliate the entries of relatively small business ventures, the new ventures might achieve larger sales growth in such markets compared to markets with lower barriers to entry (Robinson & McDougall 2001). Furthermore the research performed by Lutz et al (2009) presents retaliation also among the least important factors creating barriers to entry for new market ventures especially in industries with large amounts of established competitors. Retaliation plays only an important role in industries with limited amount of competition where the individual established rivalries can more easily affect the markets (Lutz et al 2009).

In the commercial real estate investment industry one of the largest barriers to enter new markets can be considered to be the lack of market information and benchmark data as Falkenbach (2009) has showed in her study. On the other hand for example the amount of existing market competition doesn't seem to concern European property investors when making international market entry decisions (Falkenbach 2009). Economies of scale do also have a strong impact on the previously described barriers to entry new markets in the commercial real estate investment industry. In the commercial real estate investment industry the economies of scale possessed by an investor are in practice formed by the capitalization of real estate assets owned by the investor (Bers & Springer 1997, 1998). Benefits created by the economies of scale possessed by the existing market competitors by i.e. specializing in single property types or geographical concentration to promote cost efficiencies create market barriers to entry for new investors as these already established actors can be assumed to be more competitive in transaction situations due to their lower operation costs (Bers & Springer 1997, 1998). Economies of scale create further competitive advantages for larger investment organizations by their market capitalization as investing in commercial real estate tends to be very capital intensive and as larger organizations can be considered to be more efficient in terms of their better access to capital, lower cost of capital and decreased operating costs (Linneman 1997).

Competition created by substitutes

Existing substitutes have a notable impact on the customers' willingness to pay for certain industry's products as rational customers tend to switch between substitute products according to fluctuations in product prices (Grant 2010, p. 70; Geroski 2003). If no close substitutes exist as is the case in i.e. commercial real estate investment the customers are expected to be relatively insensitive to changes in price as they don't have any other comparable products to switch to satisfy their needs and thus the demand for the original product remains the same (Ahern 2014; Grant 2010, p. 70). In other words the different companies producing different goods which satisfy the same customer needs are in practice competing over a common customer base and thus also the substitute markets of the product have also to be analyzed in order to perform complete industry-level assessment (Levis & Papageorgiou 2007; Geroski 2003). Thus the customers are encouraged to actively seek for potential substitutes for products they are using in order to increase price competition and create savings for the customers (Levis & Papageorgiou 2007).

On the other hand, increased price competition as previously explained could pose major difficulties for the industry's business organizations and lead to industry-wide losses making finding the right balance crucial for the markets to be sustainable. Furthermore the product's complexity and the customer's ability to distinct qualitative attributes between the product and its substitutes decreases the customer's tendency to switch to using substitutes instead making simultaneously the customers more insensitive to changes in price (Grant 2010, p. 70-71). Again the development of internet and the intensive growth on e-commerce, despite the fact e-commerce isn't a true complete substitute for conventional stores as they lack the opportunity for product inspection before purchasing and are associated with waiting costs related to shipping, has dramatically increased the amount of available substitute products for many industries including among many other i.e. telecommunication companies, newspapers and travel agencies (Loginova 2005; Grant 2010, p. 70).

Together the existing competition between established rivals, threat of new company entries and the competition created by product substitutes create the competition in the industry environment. Understanding, anticipating and reacting accordingly to its competition the business organization can gain notable profits from its operations based on increased customer base and supplier efficiency. But in order to achieve this the company has to adjust its operations accordingly.

2.3.3 Business strategy

External industry-level factors, consisting of customers, suppliers and competition, together with the dominant macro environmental factors created by political, economic, social, technological environmental and legal attributes create the markets the business organizations are expected to operate in and define the competition the organization is expected to answer to. After recognizing and assessing their internal and external resources, business organizations have to most importantly use the resources in which they perform relatively better compared to their competitors in order to create competitive advantages for themselves in their business operations. The modern business environments characterized by globalization and which tend to become more and more intensive by their level of competition forces the business organizations to efficiently utilize their competitive advantages in their business strategies (Svarova & Vrchota 2014; Mason 2007; Walsh 2005). Furthermore the increased competition forces the business organizations to increase their product quality, adaptability and flexibility in order to cope with the competition (Svarova & Vrchota 2014). This creates pressure for the business organization's management to efficiently utilize the possessed competitive advantages in their strategies in order to maintain a successful and growing organization (Svarova & Vrchota 2014).

In general business strategy can be defined as the means which using the business organizations or individuals expect to reach their objectives which are derived by the corporate, competitive and functional approaches (Grant 2010, p. 16; Svarova & Vrchota 2014; Hunt & Derozier 2004). The basic objective of a business organization in the long term is to survive, which in practice implies that the profits of its business operations exceed its cost of capital (Grant 2010, p. 18-19).

Furthermore according to Grant (2010, p. 19) the organization may survive either by entering markets which already by default provide lucrative return rates or by achieving more competitive advantages compared to its competitors in order to gain better than industry average rates of return.

Business strategy is produced and maintained by business organization's strategic management with an objective to utilize its competitive advantages, elimination of rivals and obtaining of abnormal profits in order to create a successful and sustainable business performance in the long-term. The company's business strategy isn't however a sole concern of its strategic management, but instead the business strategy should be represented by every employee in all of its daily operations. Thus business strategy is actually an organizational way of thinking which guides and determines each individual member's actions in the business organization. Characteristics of a successful business strategy include uniqueness and viability which result from a creative approach to conducting the company's business strategy. The same business strategy doesn't necessarily fit all the varying contexts or economic times and thus different strategies supporting growth, stabilization or decline according to corresponding environment at a given time are often required (Hunt & Derozier 2004). Together the business strategy's uniqueness and its implementation process are the key factors for the organization's maintaining and improving of its competitive advantages. (Svarova & Vrchota 2014.)

3 Competitive advantages in commercial real estate investment

3.1 Characteristics of commercial real estate investment

Investing in commercial real estate assets has for long been used to diversification of mixed-asset portfolios as they are recognized to have low correlation with traditional investment securities like stocks and bonds (Quan & Titman 1999; Riddiough 2002; Larsen 2004). Furthermore in early empirical studies commercial real estate assets tend to have provided relatively high returns with an extremely low volatility compared to the mentioned more traditional investment securities (Lin & Vandell 2007; Darrat & Glascock 1989). Both mixed-asset and international real estate portfolio managers have also increasingly begun to use the locality of commercial real estate markets as an advantage by investing in numerous local markets for diversification purposes (Lieser & Groh 2014; Hastings & Nordby 2007; Falkenbach & Toivonen 2010). Furthermore according to Hastings & Nordby (2007) the diversification benefits from international real estate investment comes mostly from the varying national economies operating based on different drivers, future expectations and risk profiles. Commercial real estate assets are also traditionally considered to be potentially good hedging instruments against inflation especially during the times of market equilibrium (Ziering & Hughes 2004). As a result from the growing interest in commercial real estate investment business the industry's competition has also increased substantially (Palm 2013).

Even though real estate has been widely used for diversification purposes of mixed-asset portfolios, several other alternative asset types have become increasingly more attractive in the eyes of risk-averse investors. For example commodities, hedge funds, private equity, and emerging market assets have diversification-wise similar properties compared to real estate assets as they tend to have low correlation with bonds and stocks. Furthermore Hung et al (2008) have recognized that the amount of benefits gained by portfolio diversification in investing to both direct and indirect real estate assets tend to vary by the phase of the economic cycle. Thus a possibility exits for investors able to invest in all of the mentioned asset types to gain competitive advantages over its more focused competitors as they have the possibility to allocate their investment portfolios according to the dynamic returns provided by different alternative investment assets determined by the dominant market cycle. However the steady cash flows generated by real estate assets together with their relatively low volatility have maintained the interest of different investors in the particular asset type emphasizing their importance and irreplaceability in modern mixed-asset portfolios. (Hung et al 2008.)

The international interest for Finland's commercial property market has also increased vastly since 2002 and the amount of active international investors has increased notably (Falkenbach & Toivonen 2010). Simultaneously the internationalization has decreased the previous bargaining power of individual investors leading to purchase prices being more closely determined by the actual market equilibrium furthermore determined by supply and demand (Falkenbach & Toivonen 2010). Thus the growth of international interest in the Finnish commercial property market has vastly increased competition in the markets as well forcing the active investors to reconsider their business strategies. The reconsideration of business strategies, however, requires the strategic management of investment companies to recognize and utilize their competitive advantages with even more careful consideration in order to sustain the competition. Despite this most of the existing literature on the topic is focused on competitive advantages in general or in the business organizations' view of organizing their corporate real estate operations and there is actually little to none studies performed on the business strategies or competitive advantages of actual commercial real estate investment companies (Palm 2013). Thus in this study the majority of the competitive advantages regarding commercial real estate investment have to be derived from somewhere else than directly from the existing literature. All the derived theory regarding competitive advantages in commercial real estate investment in this chapter is however based in the resource-based view theory presented in the previous chapter.

In order to recognize the competitive advantages possessed by companies in the commercial real estate industry one has to first understand the industry's key fundamentals and characteristics. Commercial properties are usually categorized into office, retail, industrial, leisure or other property types or a combination of the previous (Glickman 2014; Ghysels et al 2013, p. 514, 529). Both property type and asset location play an important role in commercial real estate investment as the markets are divided into different submarkets using the mentioned two as most important classifying criteria (Glickman 2014). The submarket locations have varying attributes considering their transportation connections, different amenities and clustering benefits, which are gained from the vicinity of business organizations operating in similar businesses (Glickman 2014). The submarkets basically determine the commercial real estate asset's desirability and thus also determine the demand and risk profile for the individual property. Commercial real estate investors which are by their business strategies ready to invest in the same types of assets in the same locations can be thus considered to be in the same strategic groups and competing against each other as described previously.

Probably the most recognizable attribute of commercial real estate markets compared to i.e. more traditional security markets is the considerably high illiquidity of assets created by high market values of single investments (Hristea 2013; Rehring 2012; Lin & Vandell 2007). Unlike bonds and stocks which can be directly purchased through bid and sell offers the acquisitions of real estate assets are often carried out as negotiation deals. Thus in most cases the transaction of real estate assets is also a heavy, time-consuming and expensive process as it involves matters such as technical and legal due diligence, potential urban planning issues, analysis of different financing alternatives and multiple phases of negotiations which all have to be carried out carefully (Hristea 2013; Scofield & Devaney 2013; Ghysels et al 2013, p. 510; Rehring 2012; Lin & Vandell 2007). Rehring (2012) also points out that the heavy and expensive transaction process often efficiently restricts the amounts of transactions and leads to longer holding periods of assets in hope of steady returns in the future even though the asset's current market price would be higher compared to the original purchase price. The development of new space supply in commercial real estate markets is also a time-consuming process and thus often lags long behind the changes in demand (Wyman et al 2011).

In commercial real estate markets the buyers and sellers tend to also possess very asymmetric information which furthermore contributes in increasing transaction costs and difficulties (Scofield & Devaney 2013; Clayton et al 2008). Commercial real estate assets also tend to vary widely by their physical and locational attributes making the market products very heterogeneous (Scofield & Devaney 2013; Ghysels et al 2013, p. 510; Cozmei & Onofrei 2012). The industry does also suffer from high search and information costs as the markets can be described to be very private and dispersed furthermore increasing the complexity and costs of real estate transaction processes (Scofield & Devaney 2013; Ghysels et al 2013, p. 510). Furthermore the difference in possessed amount of information between domestic and foreign investors is often relatively large as foreign investors are often associated with high information search costs, upwardly biased beliefs of future fluctuations in asset prices and shorter time horizons to perform their purchases (Lambson et al 2004). In their research Lambson et al (2004) using different U.S. states as their empirical case argue that foreign investors lack the information required to value distant properties correctly and purchasing the information is often expensive. There are also notable differences between more and less experienced investment organizations as less experienced organizations have the tendency to more often pay as high as 5% market premiums for their investments (Lambson et al 2004). The fact that foreign investors are often less competitive in terms of availability of market information compared to their domestic counterparts is also supported by the research performed by Falkenbach (2009) in which half of the European property investors considered the availability of market information and performance data of the target asset location as critical factors affecting in their international property investment decisions.

The information asymmetry is often attempted to be mitigated using different advisory and brokerage companies acting between the buyers and sellers with an objective to provide knowledge of the asset under transaction between the parties which furthermore increases transaction costs (Scofield & Devaney 2013). Furthermore different real estate consultancy services play an important role in the sourcing of transactions and act as a link between willing sellers and purchasers. According to Falkenbach (2009) the availability of professional real estate services does also thus play an important role in the foreign investment organizations' decisions to enter new international markets in order to attempt to mitigate the lack of available market information leading to lower competiveness compared to domestic organizations. The commercial real estate transaction process is also characterized by a sequential bid process only starting from the buyer's bid exceeding the reservation price and without the option to recall between phases which has tendency to furthermore increase the total transaction costs (Scofield & Devaney 2013; Lin & Vandell 2007). In total the transaction processes of commercial real estate investments typically last from weeks to even months (Scofield & Devaney 2013). The infrequency of trading and resulting market inefficiency has also made it more difficult to analyze the commercial real estate industry in terms of i.e. asset returns and volatility (Ghysels et al 2013, p. 511; Plazzi et al 2011; Cheng et al 2010; Lin & Vandell 2007).

The average holding periods of commercial real estate investments are strongly correlated with property type, current and expected market conditions, the mentioned total transaction costs, asset volatility and other related issues (Baroni et al 2007; Cheng et al 2010; Larsen 2004). Furthermore higher returns tend to decrease and higher investment values tend to increase the holding periods of commercial real estate assets (Baroni et al 2007). Furthermore the local tax regulations which provide potential tax shield benefits and determine the transaction taxes for commercial real estate investors have impact on the investor's decisions on when to sell (Liapis et al 2014; Glickman 2014, p. 85; Cheng et al 2010). The asset's optimal holding period is often described to be determined by comparing the trade-off between costs related to selling the current property and depreciation advantage gained from a new acquisition (Cheng et al 2010). In general the holding period of commercial real estate assets varies between 5 and 15 years depending largely on the observed location, nature of the asset and the property owner's business strategy (Cheng et al 2010; Larsen 2004). While the vast majority of investors report using an expected holding period of 10 years for example Canadian commercial real estate investors seem to prefer a holding period of only 5-8 years (Cheng et al 2010; Larsen 2004). In short the longer holding periods of commercial real estate assets are at least partly associated with the investment assets' high illiquidity risk which supports the common perception of real estate assets being more lucrative in the eyes of investors looking for long-term investments in particular (Lin & Vandell 2007).

Due to the commercial real estate investments' tendency to tie up large amounts of capital the importance of debt financing plays an important role in the performance of commercial real estate investments (Wyman et al 2011). The capital structure of commercial real estate investments usually strongly emphasizes the amount of debt and the loan-to-value (LTV) ratios of such investments tend to be relatively high: in Western European markets are usually around 60-65% with a few exceptions of LTV ratios as high as 75% (Giambona et al. 2014; Partners Group 2014). Financial service companies providing the debt do usually prefer financing commercial real estate assets as they can be considered to be rather safe investments with little to no connectivity to companies occupying them and they do as well tend to depreciate notably slower than traditional investment securities (Giambona et al 2014). In addition to the relatively low risk profile financial service providers find financing commercial real estate investments lucrative also because of the fact individual assets, as mentioned previously, tend to use up considerable amounts of capital which makes it easier for the financial service providers to monitor the debt they have granted for investments in commercial real estate assets (Giambona et al 2014). However during difficult economic times, as for example after the global financial crisis starting from 2007, commercial real estate investors might prove it challenging to attract debt for their investments as financial service providers consider their financing agreements more carefully (Partners Group 2014; Glickman 2014). Especially riskier commercial real estate investments with secondary locations might prove to be difficult to raise debt financing for (Partners Group 2014; Deloitte 2013). Furthermore regulatory reforms caused by the 2007 financial crisis has restricted bank lending, which currently is the main source of financing for a notable 94% of all European commercial real estate investments, to all but the most riskless investments (Partners Group 2014). Difficulties in raising debt might eventually even lead to commercial real estate investors missing potential investment opportunities (Hristea 2013).

Successful commercial real estate investment does also require notable taxation considerations as the assets are subject to many types of property related taxations determined by the local authorities, which often ultimately fall indirectly to the responsibility of the tenants to be paid (Glickman 2014, p. 82; Ghysels et al 2013, p. 510; Cozmei & Onofrei 2012). The local tax regulations vary widely, are solely dependent on the decisions of local authorities and are thus very difficult to be described on a general level or furthermore predicted. However some common factors considering commercial real estate taxation exist in the more developed markets. Local tax regulations might provide valuable tax shield benefits in terms of i.e. tax allowances for commercial real estate investors affecting especially their asset holding decisions and furthermore increasing asset profitability (Liapis et al 2014; Cheng et al 2010). Taxation regulations do play an important role in financing decisions of commercial real estate assets as the interest rates of debt are tax deductible and thus encourages for the investors towards a higher loan-to-value ratio simultaneously increasing risks (Glickman 2014, p. 83). Value of commercial real estate investments is also expected to be deteriorating over time due to depreciation and the depreciation expenses are often granted to be deducted from taxation by the government (Glickman 2014, p. 84). The tax allowances do however require taxable profit to be claimed and is thus highly dependent on the property investor's financial performance (Liapis et al 2014).

3.2 Valuation of commercial real estate investments

When making investment decisions the most often used valuation method for valuing income-producing commercial real estate assets, just as in other than commercial real estate capital markets as well, is the discounted cash flow analysis which takes an approach to asset's valuation in the form of generated rental income and potential capital growth (IVSC 2011; Slade & Sirmans 2010; Lundström & Gustafsson 2009; Hungria-Garcia 2004; Pretorius et al 2003). Even though commercial real estate assets generate returns in terms of rental income and capital growth and thus have similar characteristics than both stocks and bonds, they do however also have certain specialties compared to more traditional investment securities which have to be taken into account in their investment valuation (Ghysels et al 2007; Graff & Webb 1997). As the actual transaction prices are in general determined mostly by the outcomes of investment asset valuations it is important for the investor that the valuations are as accurate and realistic as possible in order to perform correct investment decisions (Babawale 2013). Furthermore the current external environment, investing organization's resources and business strategy have to be carefully assessed and taken into account accordingly in the valuation process.

As mentioned previously, commercial real estate investment markets are in numerous ways notably less efficient compared to i.e. stock and bond markets. This together with notable limitations to opportunities of market arbitrage does also create notable possibilities for mispriced asset transactions to occur as the market prices are far from set by the market equilibrium created by supply and demand (Clayton et al 2008). In traditional investment security markets the abnormal returns created by asset mispricing would be quickly eliminated as the abnormal returns would attract additional competition to balance the prices (Clayton et al 2008). The inability to short sell commercial real estate investments furthermore increases the tendency for asset mispricing as it eliminates the more sophisticated traders from the potentially overvalued markets (Wyman et al 2011; Clayton et al 2008). The valuation accuracy of commercial real estate investments plays an important role as commercial real estate assets are a notable part of the viability and fluctuations in general financial markets and economies of nations (Babawale 2013). Furthermore the increased interest and competition of real estate as an asset class emphasizes the importance of accuracy of performed valuations when making investment decisions (Babawale 2013).

The current discounted cash flow method used for commercial real estate investment valuation does also subject the investors to possibility of making sentimental assumptions often giving a too positive image of asset's returns in the future (Clayton et al 2008). These sentimental assumptions often include i.e. a misguided belief of asset's future cash flows or its risk profile (Clayton et al 2008; Shilling & Sing 2007). As both of these factors do have strong impact on the asset's valuation outcomes it is more than important to attempt to avoid making decisions based on sentimental basis and instead understand the importance of fundamentals (Clayton et al 2008). According to i.e. empirical research performed by Shilling & Sing (2007) and exploratory paper of Wyman et al (2011) commercial real estate investors tend to perform investment decisions on an irrational basis as they often have overly optimistic future expectations and make decisions based on data from previous periods. The argument is also supported by i.e. Pfnur & Armonat (2013) who present that the standard deviation of forecasted and actually realized rental growths was as high as 47% by average. In order to avoid making such irrational decisions commercial real estate investors do often use also external opinions from certain valuation and consultancy service providers which attempt to give as neutral and accurate valuations or data as possible based on the current markets (Babawale 2013; Clayton et al 2008).

As mentioned previously, the discounted cash flow analysis is most often used in valuing commercial real estate investments and furthermore to support investment decisions. The key assumption behind all investment activity in commercial real estate markets is that in order to close an asset transaction deal the buyer must give a higher purchase offer and thus have to value the commercial real estate assets higher than its expected competitors. In order to value the transaction's market price higher and thus to be prepared to pay a higher purchase price the buyer has to have better or additional competitive advantages compared to its competitors, assuming the buyer and its competition all act on a rational basis making decisions based on fundamentals only. In order to understand how the competitive advantages of business organizations manifest themselves in asset valuation and thus furthermore in investment decisions as well more fundamental understanding of the discounted cash flow based valuation is required. In Finland most of the commercial real estate transactions are actually performed on shares of the so called mutual real estate companies which have direct ownership on certain direct real estate assets (KTI 2014). Thus by acquiring the shares of mutual real estate companies the buyer gains ownership of the direct commercial real estate asset through the mutual real estate company.

The discounted cash flow analysis determines the asset's market value based on the net present value of cash flows generated by the asset summed up by the present value of its resale price (IVSC 2011). The key factors affecting the asset's investment value are its estimated yield, representing the investment's risk profile determined by the markets, and the annual cash flows in terms of net operating income it is expected to produce in the future (IVSC 2011; Hungria-Garcia 2004). Thus when estimating asset's market value, market yield is often identified as the market's return expectation for the asset and should thus be assumed to be completely market determined (IVSC 2011; Hungria-Garcia 2004). Due to the long-term investment horizon of commercial real estate assets investment decisions require difficult and complex forecasting of future net operating income levels strongly correlating with the fluctuations in the rental cycle (Sanderson et al 2006) in a dynamic and constantly changing market environment which increases the actual risks of investing in commercial real estate assets (IVSC 2011; Wyman et al 2011). On the other hand the investment asset's risk profile is often the investor's individual opinion about the asset's future return requirements instead of the exact risk profile determined by the markets. Together these two factors alone make commercial real estate valuation using a discounted cash flow analysis extremely difficult but still however potentially the most accurate and best tool for the purpose. Typically commercial real estate investments are valued using five to ten years as an investment horizon for the discounted cash flow model but time to time shorter periods are also used depending largely on the nature and expected holding period of the investment (Hungria-Garcia 2004).

Yield is determined when analyzing investment opportunities and plays thus an important role in investor's initial decision making. Yield represents the target asset's risk profile and the returns the investor is expected to gain from the investment. When the local commercial real estate market's transparency or trading volume isn't high enough to provide sufficient transaction data for comparison, yield is often determined in comparison to so called risk-free assets, which are expected to have little to no probability of defaulting in practice (IVSC 2011). The risk-free rate is often derived from long-term government treasuries or AAA-rated bonds which are backed up by the corresponding governments and are thus expected to be relieved from the risk of defaulting

(IVSC 2011; Ziering & Hughes 2004). The investment asset's own risk premium, representing the additional risks involved to the asset in particular, is added to the risk-free rate to achieve the asset's own yield (IVSC 2011; Hungria-Garcia 2004; Ziering & Hughes 2004; Baum & MacGregor 1992). The uncertainty and unpredictability if the selected yield represents the actual market yield determined by the markets put together with the yield's strong influence on the asset's value creates large pressures for the investors to estimate the yield carefully. The yield is neither static and tends to move dynamically according to dominant market situations which furthermore creates challenges in predicting the growth expectations in the particular asset's value as the value is again strictly tied to the fluctuations of yield. Thus yield is often very difficult to measure and is based on numerous estimates often individually made by the investor but nevertheless it should represent the market determined risk and return for the investment and in efficient markets in theory all the actors should have a similar assumption of the yields of different investments. The commercial real estate market, however, can be considered to be far from an efficient market as pointed out by i.e. Sivitanides et al (2003) and Giannotti & Mattarocci (2008).

The asset's net operating income is derived from the asset's potential gross operating income by subtracting several net operating income decreasing factors (IVSC 2011; Hungria-Garcia 2004). The potential gross operating income, according to its name, represents the asset's potential rental income it could produce if fully leased out at a market rent determined by the current and future market supply and demand of the asset under perfect market conditions (IVSC 2011). Thus i.e. the more leasable area the property has the higher its potential gross operating income is. The annual potential gross operating income does also take estimated inflation into consideration during the years of the investment horizon. As mentioned previously the investors tend to have overly optimistic expectations of the future growth in rental income which is often based on expected increased demand for such premises in the particular area. Thus it is extremely important for the investor not to act sentimentally neither to rely on past data when forecasting future fluctuations in the market rents but instead base the assumptions on rational aspects.

After determining the annual potential gross operating income for the asset's holding period, or the 5-10-year estimation respectively, the costs related to the asset's estimated vacancy and credit default losses are deducted (Hungria-Garcia 2004). Vacancy costs occur from lost rents of premises which are by time for reason or another not leased out. Like the market-determined rents also estimated costs of vacancy are largely forecasts and difficult to estimate due to the constantly evolving markets. However the business organization in charge of the asset's management can have little to no impact on the market rents determined by its external environment but the vacancy costs can be attempted to be minimized by i.e. attracting new customers more efficiently through more active leasing compared to asset's existing competition. The investment asset's nature is of course alone a strong determinant for the estimated vacancy costs, as i.e. the demand and occupancy rates of energy efficient buildings compared to more conventional buildings has been studied to be relatively higher (Reichardt 2013). After deducting the vacancy and tenant credit default costs from the asset's potential gross operating income the result is the asset's gross operating income.

Finally from the gross operating income all the annual operating costs occurred from maintaining the property are deducted in order to achieve the asset's annual net operating income (Hungria-Garcia 2004). These operating costs include incurred costs from i.e. public charges, insurance, maintenance, energy, air conditioning, water, cleaning, security and finally the asset management's salaries, wages and other expenses (KTI 2014; Pfnur & Armonat 2013). The corresponding proportions of each operating costs varies considerably depending on property type and building size, quality and location (Pfnur & Armonat 2013). Due to the long holding periods of commercial real estate assets the uncertainty and risks concerning outgoing expenses in terms of operating costs are highly relevant (Pfnur & Armonat 2013). Furthermore the empirical research performed on European investment managers by Pfnur & Armonat (2013) showed that the difference between forecasted and actual operating costs of properties varied by 38% by average and furthermore according to Pfnur & Armonat (2013) in reality this gap is expected to be even greater.

Thus it can be stated that numerous investment decisions have been made based on inaccurately forecasted operating expenses of the assets. Some investors mitigate their own risks related to operating costs by making so called triple-net leases which separate the capital fees and operating fees from each other and often the estimated operating fee is paid monthly in advance and then leveled at the end of the year according to actually occurred costs (Reichardt 2013). However even this doesn’t completely mitigate the risks related to operating expenses as the property owner can’t collect operating expenses from vacant spaces without a tenant and ultimately even the tenants’ ability to pay might be compromised (Pfnur & Armonat 2013). In addition to operating costs also capital expenditures, which are used to renovate the property to counter depreciation and to keep the property in its original shape, create costs for the asset (Pfnur & Armonat 2013). Furthermore Pfnur & Armonat (2013) point out that like with the operating costs the difference between European investment managers’ forecasted and actual capital expenditures were empirically studied to be 35% by average meaning that there are notable risks involved in initially estimating them as well when making investment decisions.

The annual cash flows of the period used for valuation are discounted to their present values typically by using a percentage value consisting of the sum of the previously determined yield and the expected inflation (IVSC 2011). Also the net present value of the asset’s residual value, the value which represents the asset’s estimated resale price at the end of the investment period, is taken into account (Hordjik & van de Ridder 2005). The residual value is calculated by using direct capitalization and thus dividing the corresponding year’s annual net operating income with the asset’s yield. Depending on the investor also a different exit yield for the residual value is often used. The exit yield should represent the investor’s estimation of market fluctuations in terms of the property’s location, assumed life cycle and the expected market trends in general (Hungria-Garcia 2004). Furthermore the cash flows occurring from disposal of the asset should take into account the investor’s estimated divestment costs in terms of i.e. brokerage and consultancy fees (Hungria-Garcia 2004).

3.3 Competitive advantages based on investment valuation

Income-producing commercial real estate investments are usually without exception valued using the discounted cash flow analysis described in the previous subchapter. Assuming that all the potential investors use the same formula for valuation the only factors which could create differences in varying investor’s estimations of asset’s market value are the input values such as rent levels, operation expenses, discount rate etc. (Hungria-Garcia 2004). In order to analyze the actual competitive advantages of commercial real estate investors some assumptions on values determined and estimated by individual investors to be used in their discounted cash flow calculations has to be made.

First off the investment's initial yield, which should represent the asset's market-determined risk and return profile as previously described, is an estimation made by the investor itself based on his individual knowledge of the markets. Furthermore the yield as a factor affecting strongly in the asset's investment value and the price the investor is ready to pay for the asset in the market leaves a notable chance for the investors, which have the tendency to make sentimental decisions as described by i.e. Clayton et al (2008) and Shilling & Sing (2007), to estimate the yield too optimistically and thus to determine a higher than market value for the asset or vice versa. Whether or not the actual market-determined yield is publicly available, nevertheless overvaluing an investment based on any other lower yield than the market one and thus placing the highest bid in a commercial real estate asset transaction can't thus be considered to be because of a possessed competitive advantage. Based on this it is assumed that all the commercial real estate investors share the same estimation of a yield for all the market valued asset transactions and varying yield estimates doesn't thus have impact on the purchase bids or furthermore the actual market transaction prices.

The gross income produced by the asset is determined by the asset's leasable amount of space and the market-determined rent the investor is expected to be able to lease the premises to the markets. Nevertheless which business organization manages to place the highest bid for the asset the leasable space at the transaction moment is the same for each of the parties. The investor could be able to increase the leasable space in the future in terms of i.e. plan reformation or renovations increasing space efficiency but additional costs are expected to occur from such operations and can thus be considered as an additional investment. The leasable space can be leased out to customers at a market rent which is determined by the supply and demand in the markets (Sivitanides 1997). As the supply of leasable space in commercial real estate markets increases and the demand decreases the market rents are also expected to decrease and vice versa (Sivitanides 1997). In larger and more mature markets individual investor's aren't expected to gain such a monopolistic status in the markets that they could have impact on the fluctuations in the whole market supply. For example in Finland the total amount of different real estate investment companies has grown rapidly in the recent times and as of 2014 the largest four real estate investors are standing clearly out from the rest and varying vastly by their market strategies but have only approximately 25-30% of assets under management from the Finland's professional property investment market in total which also supports the argument of individual investors having little to no control over the market equilibrium (KTI 2014; Genesta 2014).

Furthermore the market demand is determined by numerous goods producers which absorb the space supply according to the amount of their production needs (Parli & Fisher 2010; Lentz & Tsu 1999). In order to adjust to the market equilibrium the property owner can't lower the rental rates too much in order to meet its long-term payment requirements, but on the other hand spaces with too high rental rates might not be able to attract enough paying tenants to cover the asset's holding costs consisting of operating and debt service expenses (Lentz & Tsu 1999). Thus the market rents can be as well considered to be externally determined by the markets and individual investors aren't expected to be able to have impact on market rent levels with their individual actions. Thus the only way for the investors to decrease the market total rents is by decreasing their maintenance expenses.

On the other hand as the commercial real estate markets have been described to suffer from high information asymmetry between sellers and buyers (tenants and landlords) and thus the parties might not actually be aware of the exact market rents (Scofield & Devaney 2013; Clayton et al

2008). Thus the investor might be able to negotiate leases higher than the actual equilibrium rental rates than determined by the market supply and demand. Furthermore the market rents tend to be vulnerable to changes in the economic cycle which could lead to a situation where the signed lease contracts are based on a higher than market rent levels because they are signed i.e. before the beginning of a financial crisis as i.e. the crisis which begun in 2007 has shown (Parli & Fisher 2010; Sivitanides 1997). The signed market rents are higher as the economic downturn and decreasing of GDP levels in practice means decreasing demand in the commercial real estate leasing markets which is causing the market rents to fall down (Parli & Fisher 2010). Thus a commercial real estate investor which has managed to sign a larger amount of lease contracts with its customers before an economic downturn of the markets can be expected to have a competitive advantage over its rivals as it is able to pull in more rental income in the near future until the signed contracts expire compared to the market rent averages. This is assuming the tenants which signed the lease contract before the beginning of the recession can cope with the challenging financial situation together with higher rent levels and won't cause credit losses for the investor in terms of i.e. insolvency or bankruptcy which also increases the asset's risk profile (Parli & Fisher 2010). On the other hand the situation is upside down when the markets begin to recover: contract leases signed before the recovery tend to have lower agreed rents than the market levels compared to investors which sign majority of their lease contracts after the beginning of the recovery at a higher rent level due to increased demand. In this case the investor acting earlier has the competitive disadvantage later on if the rival organizations manage to sign adequate amount of contract leases in comparison at financially better times.

The commercial real estate investor can furthermore create competitive advantages for itself by minimizing its risks of leaseholder credit defaults by diversifying its tenant base as widely as possible. Furthermore different tenants tend to possess different risk levels for the investor and higher risk-profile tenants have been observed to decrease the efficiency of real estate assets they are leaseholders in (Giannotti & Mattarocci 2008). The risk levels of different type of tenants based on i.e. their size, industry they operate in, leverage and such aren't however static but tend to correlate strongly with the fluctuations in the economic cycle (McGreal et al 2006). Thus the risks associated with the current tenant mix have to be analyzed according to i.e. the current phase of the economic cycle and other dominant external factors described earlier in the chapter 2.3.

The risk created by property or portfolio size and tenant mix does also walk hand by hand as the end of leasehold or a case of credit default of a single tenant has relatively more impact on the performance of smaller properties or portfolios than their larger counterparts (Seiler et al 1999). On the other hand Seiler et al (1999) point out that the competitive advantages of larger assets gained in terms of lower tenant risk are at least partly offset by the higher illiquidity risk associated with the larger assets. Giannotti & Mattarocci (2008) also note that some tenants can be considered to be rather special and thus also have unique space requirements. The premises left after these more special tenants are considered to be notably more difficult to lease out again for another organizations (Giannotti & Mattarocci 2008).

Other than the yield and the market rents the commercial real estate investor still has some inputs left for the discounted cash flow analysis which it can have impact on. These input factors include the asset's estimated occupancy rate, collection loss expenses and operating expenses. By utilizing its capabilities and especially core competences as described in the second chapter the commercial real estate investor could improve the mentioned input factors in a way which increases the corresponding investor's investment value of the asset. Furthermore the higher the investment value the commercial real estate investor can estimate the better opportunity it has to successfully complete the transaction as the asset's highest bidder.

3.3.1 Competitive advantages and vacancy rates

In commercial real estate investment the assets' occupancy rates determine the incurring costs from vacant premises in the form of lost rental income. In practice the commercial real estate assets' occupancy rates tend to fluctuate by hand to hand with the market rents according to the changes in the economic cycle (Parli & Fisher 2010; Hendershott et al 2000; Shilling et al 1992). In the commercial real estate markets in a situation of market equilibrium there should exist a so called natural vacancy rate which varies by time and location of the asset and represents the vacancy rate level which is defined as either the rate of vacant stock requiring to facilitate the search requirements of tenants searching for space and the landlord's search requirements for tenants or the optimal amount of vacant space which maximizes the investor's expected profits in relation with the demand and the marginal holding costs incurring for the investor of keeping vacant space (Hendershott et al 2000; Sivitanides 1997). In other words as presented by i.e. Sanderson et al (2006) the natural vacancy rate is caused by the frictions of commercial real estate markets because of their structural inefficiency which tend to slow down the market clearing process leading to a natural vacancy rate clearly larger than zero percent even at the state of market equilibrium.

Thus the natural vacancy rate also defines the rate which every asset owned by a commercial real estate investor should reach considering all the investors have exactly similar capabilities to rent out their vacant spaces at rent levels determined by the market equilibrium. The amount of vacant office space in the Finnish commercial rental market increased quickly between the years 2007 and 2008 during the aftermath of the 2007 financial crisis simultaneously negatively deviating the actual vacancy rate from its natural vacancy rate (Catella 2014; McCartney 2010). In i.e. some parts of the Helsinki metropolitan area the amount of vacant space had tripled in only three years from the 50 000sqm in 2007 to 150 000sqm in 2010 (Catella 2014). The deviations of actual vacancy rates from the natural vacancy rates are furthermore increased by the lag of new construction development's adjustment to the actual supply and demand caused by long lead-times in construction (McCartney 2010). The decisions whether or not to construct more space for the rental markets walk again hand by hand with the economic cycle multiplying the economic cycle's effect on the deviations of actual vacancy rates (McCartney 2010). During economic expansion the increased income of both new and existing tenants begin to absorb the vacant space supply ultimately leading to a positive deviation from the natural vacancy rates as the actual vacancy rates are smaller than the natural vacancy rate (McCartney 2010). In theory at all times, however, the natural vacancy rate operates as the center around which the dynamics in the rental fluctuations are determined (McCartney 2010).

As mentioned previously the actual vacancy rates however vary by time, as at different economic times the potential customers are expected to have varying amounts of income and thus also capital as well to be used for leasing premises, and by location, as the commercial real estate asset's key characteristic to be tied on a certain geographic location determines the asset's market demand (Parli & Fisher 2010; Hendershott et al 2000; Sivitanides 1997). Furthermore the commercial real estate leasing markets attempt to react to external shocks in supply and demand by either providing new supply to increasing demand or by decreasing rents to cover the decreased demand caused by i.e. slowing down of the GDP growth (Parli & Fisher 2010; Sanderson et al 2006; Hendershott et al

2000). Furthermore the property type plays an important part in determining the asset's lease market's supply and demand and thus in occupancy rates as well.

A commercial real estate investor can be considered to have a competitive advantage over its rival investors if it one way or another manages to increase the gross rental income of its assets by either negotiating and signing lease contracts at a higher than market level while operating at the natural vacancy rate or by having a vacancy rate lower than the natural vacancy rate with signed market rent level contracts. Thus superior competitive advantage would be gained by possessing both a lower rate than the natural vacancy rate and contracts signed at a higher than the market average level. Furthermore the commercial real estate investor's flexibility and adoptability to shocks in supply and demand by adjusting quickly its rents towards the market equilibrium enhances the investor's competitive advantages as slower rivalries might lag behind the state of equilibrium (Sanderson et al 2006).

In the commercial real estate investment business the costs of obtaining new customers often exceed the costs of retaining current customers which creates pressure in terms of financial performance for the investor to retain their current customers. Furthermore the incentive to retain current customers is even larger if they plan on moving to a larger space simultaneously increasing their rental income produced for the investor. This supports the argument that the commercial real estate investor's most important task is to retain its current customers and attempt to lease even larger spaces for them according to their rent paying capabilities. On the other hand it is extremely costly for a very capital intensive commercial property investor to have vacant space in its assets which emphasizes the requirement of efficient leasing to new customers as well. Thus in order to achieve the minimum objective of attaining the natural vacancy rate or more preferably to achieve competitive advantages compared to its rivalries by attaining a lower vacancy rate than the natural one efficient leasing, managing of customer relations and rent reviewing is required from the investor. (Palm 2013.)

Even though the commercial real estate investor's leasing to new customers and relationship management of current customers would be at an efficient level, it is also important to maintain its assets in a way that they are currently and in the future in a condition which enables the assets to be easily leasable as well (Palm 2013). For example Nappi-Choulet & Decamps (2013) argue that increasing building sustainability has the opportunity to decrease investor risk and to increase tenant attractiveness as green buildings have been documented in the recent literature to promote well-being and productivity of its occupiers. The increased tenant attractiveness is thus also expected to have the possibility to reduce the asset's vacancy rates which creates a competitive edge for the property investor. Owning sustainable assets does also create positive image for the investor which can be used as a marketing leverage in order to build a socially responsible image as a landlord for its customers and as an employer for its current and potential employees as previously described in chapter 2.2 which is furthermore expected to decrease its vacancy rates (Nappi-Choulet & Decamps 2013). This is furthermore supported by Vanags & Butane (2013) as they describe that commercial property investor's which aren't able to fulfill the low carbon and energy level requirements set by potential occupiers are due to more sustainable stock of their competitors forced to decrease rents in order to keep their properties occupied which simultaneously increases the risk of their investments. According to empirical studies performed by i.e. Jones Lang LaSalle, Cushman & Wakefield and DTZ in 2008 the potential tenants would be also willing to pay a 1-5 to 10 percent rental premium on top of the market rents for green-certified buildings (Nappi-Choulet & Decamps 2013).

Furthermore Bonde & Song (2013) present numerous studies which researched the rent premiums of commercial real estate assets in different continents and they all came to similar conclusions of existing rent premiums. On the other hand the rent premium is expected to decrease in the future as the potential occupiers aren't expected to pay rent premium for commercial properties which are managed well considering proactive attitude towards sustainability to be a fundamental requirement for competitiveness in commercial real estate investment today (Nappi-Choulet & Decamps 2013; Vanags & Butane 2013).

Thus to conclude in order to decrease its vacancy rates and to increase its competitive advantage in terms of higher occupancy rates than competitors it is extremely important for the commercial real estate investor to be efficient in three categories: (1) in customer service of current tenants including fluent communications between the landlords and the tenants and high responsiveness to different fault reports, (2) in leasing for new customers including i.e. marketing of vacant spaces, tenant selection and contract creation, and finally (3) in maintaining the assets at a level which supports the operations of the previous two by performing i.e. tenant consulting, property maintenance, repairs, fault report solving and other day-to-day operations in order to keep the assets easily leasable (Palm 2013).

3.3.2 Competitive advantages and operating costs

In addition to having the opportunity to have impact on the gross operating income of its assets through rents and vacancy rates the commercial real estate investor is also able to increase its net operating income and competitive advantage by decreasing its asset operating costs (Bonde & Song 2013). The composition and distribution of operating costs varies widely between different countries already because of different dominant climates in general but in Finland the operating costs of office buildings by average in 2012 included administration (5%), indoor operations and maintenance (13%), outdoor maintenance (3%), cleaning (3%), heating (17%), water and wastewater (2%), electricity (17%), waste management (2%), insurance (1%), in some cases land rent (3%), property tax (19%), repair (15%) and other maintenance expenses (1%) (KTI 2014). Thus in order to attain competitive advantages using their operating expenses as a leverage the commercial real estate investor has to be able to reduce its costs below competitor average level in any of the mentioned categories.

The landlord has several options while setting up lease agreements in terms of which party is paying the operating expenses occurring during the lease period. The two most extreme types are the so called gross rent lease agreement and the net rent lease agreement (Bonde & Song 2013). In a gross rent lease agreement the landlord is responsible for paying all the asset's operating expenses and in a net rent lease agreement the tenant is responsible for such costs (Bonde & Song 2013). In Finland and Sweden the most commonly used lease agreement, probably due to the relatively short lease agreements varying from "until further notice" to 5 years by average, type is however the gross rent, which leaves all the operating costs to be managed and paid by the landlord (KTI 2014; Bonde & Song 2013). These operating costs paid by the landlord are then calculated in to the gross rents paid by the occupier (Sivitanides 1997).

Even though the operating costs of commercial real estate assets are passed forward to be paid by the tenants as written down in the lease contracts the commercial real estate investor does still have an incentive in decreasing these costs (Sivitanides 1997). The decreased operating costs means overall lower total costs occurring from leasing premises for the tenant which is expected to bring in more customers for the investor through price competition assuming the investor is able to provide operating services at the same quality than its competitors but instead with lower expenses. Furthermore it is up to the investment organization's management to make the strategic decisions whether or not to outsource its operations to a third party. The basic rule of thumb in outsourcing is that if the property services can be purchased from an external service provider at a cheaper price than the investment organization is itself capable of providing them at the same quality (Palm 2013; Lai et al 2006). Furthermore larger real estate investment organizations possess the previously described economies of scale benefits which have the tendency to lower most of the operating expenses as presented by i.e. Bers & Springer (1998) in their study focused on economies of scale of real estate investment trusts.

Energy and waste costs

Together heating, water and wastewater, electricity and waste management costs, or in other words energy and waste expenses, represent 38% of the commercial real estate asset's operating costs (KTI 2014). As the amount of these costs compared to the operating expenses in total are rather high and considering the energy and waste expenses to be the most easily manageable part of asset operating costs this provides the commercial real estate investor major opportunity for the investor to attempt to decrease its energy and waste costs and increase their asset market value in order to attain competitive advantages compared to its competitors (Bonde & Song 2013). This argument is supported by empirical research performed by Nappi-Choulet & Decamps (2013) in which they proved that energy efficiency does indeed have positive effect on the commercial real estate asset's market value through decreased operating costs and increased image level. Thereby increasing the real estate asset's energy and waste efficiency the investor has simultaneously the opportunity to mitigate its greenhouse gas emissions which are directly correlating with the energy and waste consumption levels (Nappi-Choulet & Decamps 2013).

Attempting to minimize especially energy consumption and expenses is extremely important in commercial real estate assets located in urban climates characterized by large temperature variations between summers and winters which consequently increase heating, ventilation and air conditioning costs considerably throughout the year (Aste & Del Pero 2013). The importance of energy efficiency in especially assets with high energy consumption is furthermore supported by the notable increase of price of electricity during the first decade of the 2000's which has been more than ten times the inflation during that period (Bonde & Song 2013). Also the constantly increasing amount of new regulations and the pressure caused by different environmental fees are also forcing real estate investors to decrease their energy and waste costs (Vanags & Butane 2013; Ellison & Brown 2011).

The growing interest in sustainability and pressure to minimize costs caused by constantly increasing competition in commercial real estate investment have influenced the real estate markets and furthermore the economics of real estate investment as a whole requiring the varying competitors of modern commercial real estate investment business to act more proactively on issues related to sustainability (Vanags & Butane 2013; Ellison & Brown 2011). On the other hand researches performed by both Bonde & Song (2013) and Fuerst & McAllister (2011) show that unlike rent levels, vacancy rates, location and property age energy efficiency doesn't seem to have significant direct impact on the assets' market values probably because of the costs of energy and electricity which are too low to have any notable effect on the market values. On the other hand as mentioned previously improved energy efficiency and sustainability in total do have a positive effect in the asset’s rent levels and occupancy rates which again do increase the market values of assets. Thus whether or not commercial property investors gain competitive advantages by emphasizing energy efficiency and green aspects is highly dependable on the actual energy efficiency enhancement project and branding.

The project management plays a vital role and when performed financially efficiently and if the project utilizes the latest technologies as presented in chapter 2.2.2 it is possible to increase the particular asset's market value and to gain competitive advantages by performing energy efficiency improvements. On the other hand as again presented in chapter 2.2.2 branding of especially highly trending "green" values including energy efficiency matters plays an extremely important role in utilizing such energy efficiency aspects into competitive advantages. In short the management and branding of assets' energy efficiency matters are alone sufficient enough factors to determine whether or not there exist opportunities to gain financial benefits and competitive advantages from utilizing them in commercial real estate investor's business operations. Furthermore larger investors by market capitalization might be able to utilize their large bargaining power to decrease their energy efficiency management costs.

Maintenance and repair costs

Property maintenance and repair expenses in total represent a significant cost of 37% of all the operating costs for the property owner and it consists of indoor operations and maintenance, outdoor maintenance, cleaning, waste management, other maintenance expenses and repairs (KTI 2014). Property maintenance is performed to keep the asset operational by performing both annual maintenance and periodic replacement of building parts in order to prevent economic depreciation from happening which would reduce the asset’s value through its ability to generate cash flows in the future (Jones & Sharp 2007; Pavlov & Blazenko 2005; Allen 1993). In practice property maintenance represents a wide range of maintenance operation services keeping i.e. the building’s roofs, facades, interiors, air-conditioning, plumbing, drainage, lifts and electrical and fire services operational (Lai et al 2006). Furthermore property maintenance includes control and monitoring of plants and equipment, normal repair procedures, equipment overhauls, routine inspections, emergency fault recoveries, equipment replacements, indoor and outdoor cleaning and different system modernizations and modifications (Lai et al 2006; Straub 2002). Input resources for property maintenance are employees performing the works, new and additional equipment and various tools and consumables (Lai et al 2006).

With efficient and successful property maintenance the property investor has the ability to time and disperse major maintenance and repair events and costs over the asset’s whole life cycle which provides ongoing maintenance and minimal risks for unexpected and large maintenance or repair expenses to happen (Pavlov & Blazenko 2005; Arditi & Nawakorawit 1999). Thus property maintenance shouldn’t be considered as a necessary which requires constant reactive actions but instead should be carefully planned to emphasize preventive property maintenance and clear strategies for short- medium- and long-term maintenance of the property are required in order to obtain maximum value and competiveness from the asset (Arditi & Nawakorawit 1999; Allen 1993). The maintainability of a commercial real estate asset is also highly dependable on decisions made in the building's designing and construction phase as they play an important part in the asset's whole life cycle and all operations related to it (Arditi & Nawakorawit 1999).

Furthermore if the quality of property maintenance starts to decline the property's lucrativeness in the eyes of tenants begins to decrease simultaneously forcing the property investor to reduce rents in order to maintain the current occupancy rate reducing the asset's operating income (Pavlov & Blazenko 2005). On the other hand the property investor wants to maintain its maintenance costs as low as possible in order to keep its rent levels competitive. Again the bargaining power possessed by larger investors might provide vital advantages in negotiating cheaper maintenance and repair contracts compared to their average competitors. Thus in order to increase market value of its assets and to gain competitive advantages compared to its competitors the investor has either to provide better quality services at the same price or the same quality services at a lower price than its competitors. Furthermore the property maintenance quality with the cost of increased price can't be increased endlessly as over-maintaining buildings is possible if the buyers or occupiers can't ascertain the increase in building quality (Pavlov & Blazenko 2005).

Insurance costs

Property insurance costs represents only 1% of the asset's total operating costs but existing insurance might prove to be valuable for the property investor one day as the real estate assets located especially in several particular parts of the modern world tend to be vulnerable to turbulent weather conditions and threats of terrorism as i.e. the 9/11 attacks and Hurricane Katrina have shown (Gottlieb et al 2008). Despite the minimal 1% share of the total operating costs an uninsured or underinsured property would place the property investor into a precarious financial situation after an event of loss considering the significant value of single real estate assets as described previously (Gottlieb et al 2008). Even though Finland can be considered relatively riskless commercial real estate investment environment in terms of weather conditions and absence of terrorism threats an existing and correctly valued property insurance is required to ensure riskless investment operations. As the total costs of maintaining property insurance are considerably low it can be expected that no individual investor would be able to create notable competitive advantages compared to its rivalries by achieving more competitive insurance costs. The more important question in terms of firm competitiveness is whether or not the firm's assets are insured and the insurance amount correctly valued in case of an unexpected event leading to property losses.

Taxation costs

Property taxes represent a notable 19% of the total average operating expenses of Finnish commercial real estate investors (KTI 2014). All the direct real estate assets located in Finland are subject to property taxation in the corresponding municipalities where they are situated (KTI 2014). Property taxation is according to taxation rates determined by the municipalities in line with the government set minimum and maximum rates (KTI 2014). The local tax authorities are responsible for determining the taxable property value which often represents approximately 70% of the asset's market value (KTI 2014). However, as described in the chapter 2.4 the set property taxes can be considered to be externally determined on the macro level simultaneously affecting the whole commercial real estate investment industry and no individual investor should thus be able to decrease its property taxation expenses. Using corruption would be the only option by which individual investor would be able to affect its property taxation expenses but considering the

Finland's ranking as one of the EU's top performers in anti-corruption the hypothesis of corruption can be thus abandoned as well (European Commission 2014).

Ground rent costs

In direct commercial real estate investments in Finland it is usually common for the investor to own both the building and the ground beneath it (Viitanen et al 2003, p. 44). If the investor decides to own the ground there aren't any larger costs in addition to the initial purchase cost to account for during their investment period considering the ground. Especially in the larger cities of Finland however it is also possible to own only the building and have a long-term lease agreement on the ground with the landlord to gain a leasehold interest for the property simultaneously providing privileges to build and improve the property in a similar way compared to owning it (Sevelka 2011; Viitanen et al 2003, p. 44). By leasing the ground the commercial real estate investor avoids the considerably large initial investment it would otherwise have to pay for the ground but pays a notably smaller annual rent for the ground instead. In such agreements the landlord is in most of the cases the local municipality and the lease agreements are based on a fixed-term ranging usually from 30 to 50 years (Viitanen et al 2003, p. 44). In addition to the lease period there are also other factors which can be considered to be important to assess in such agreements such as the agreed rent, rent indexation, rights to transfer the agreement and the obligations considering the building after the end of the leasing period (Viitanen et al 2003, p. 44). Especially the long contract periods of ground lease agreements crate significant uncertainty for both of the contract parties giving a notable opportunity for both positive and negative fluctuations in the contract value and thus whole asset's investment value as well (Dale-Johnson 2001). Often these fluctuations in value are however controlled by rent reset clauses with an objective to set the rents at an up-to-date level considering the fluctuations in property value throughout the lease period according to certain intervals agreed in the lease contract (Sevelka 2011).

Assuming the ground lease agreement is transferable, the lease terms won't be altered after transfer of the lease right and there is still a considerable amount left of the agreed lease period, there is not much an individual investor looking to purchase the plot can do about it other than accept it as it is and consider it accordingly in its investment valuations. Thus in such cases it can be stated that no individual investor is able to gain competitive advantages compared to others in asset transaction situations. Furthermore in situations where new land lease agreements or continuations to previous agreements are negotiated no individual investor should be able to gain more feasible lease agreements compared to others as the Finnish municipalities are obligated to treat all different parties equally and objectively according to the good administrative behavior of local public organizations (The Association of Finnish Local and Regional Authorities 2014). Thus the only way for the commercial real estate investor to gain competitive advantage using ground rents as a basis is the decision whether to purchase or lease the ground of their assets. Considering the fact mentioned by Sevelka (2011) that the rents of ground lease agreements are nowadays constantly reviewed and kept up to date according to the fluctuations in ground value determined mostly by local urban development, it is extremely important for the investor to time their purchase or lease decisions of ground correctly. Investors which decide to buy the ground instead of leasing it under recession for a relatively low price might gain notable advantages afterwards during economic booms as the ground value is expected to increase and there aren't any simultaneously increased ground lease expenses to create costs for their business operations.

Administration costs

Administration costs represent the costs occurring from administrative management of the asset and does also include among others in-house human resource expenses of the investing organization's employees and if applicable fees related to the outsourced administrative services (KTI 2014; Heinonen 2014, p. 94). As previously mentioned the total administration costs represent by average approximately 5% of the total operating costs of commercial real estate assets in Finland (KTI 2014). There is little no none available literature considering the more specific actual structure of administration costs of commercial real estate assets and the structure is also expected to vary notably between different countries. In Finland however according to i.e. Pitkänen (2013, p. 28) and Haapalainen (2013, p. 19) the human resource expenses of mutual real estate operating companies in Finland include the salaries, social security payments, pension costs and other legally determined costs related to the payment of employee salaries. Despite this different voluntary costs for the employer related to i.e. education and training, occupational health care services and other similar expenses are included in the other operating expenses described previously (Haapalainen 2013, p. 19; Pitkänen 2013, p. 28). Additionally administration costs include the costs related to i.e. accounting, auditing and legal services and other expenses paid for administrating the commercial real estate assets (Pitkänen 2013, p. 28; KHT-Media 2011, p. 89). Furthermore according to Foster & Gupta (1994) marketing costs are also most often included in the administration costs account line of different companies.

Considering administration costs account for only 5% of the total operating expenses of commercial real estate assets as described previously, cost-wise they play only a minor role in the competitive advantage opportunities for investment companies. However, considering the fact that expenses related to the human resources of the investment company are accounted in administration costs and the high importance of human resources as critical internal resources contributing towards competitive advantages as described by i.e. Maracine (2012), Grant (2010, p. 131) and Kazlauskaite & Buciuniene (2008) the commercial real estate investment organization has notable opportunities to create competitive advantages by correct and efficient allocation of especially the human resource expenses. Furthermore, as already pointed out previously, according to Capozza & Seguin (1999) more specialized commercial real estate investors gain competitive advantages in terms of lower administration costs as more diversified organizations tend to require more expertise which again is expected to increase their administration costs.

According to the market equilibrium hypothesis and the assumption that recession would always be expected to cut the amount of jobs it should thus create oversupply of workforce simultaneously creating pressure for the salaries to decrease for the labor market to reach equilibrium again. The publication of Statistics Finland (2013) describing the fluctuations of real income received by Finnish workforce supports this argument and it can be clearly seen that the increase of received income by average has notably slowed down during the recessions of 2000-2001 and from 2008 onwards. Furthermore as employee salaries account for the majority of human resource expenses of especially knowledge-intensive organizations consisting of mostly highly educated individuals such as commercial real estate investment companies (Talouselämä 2010), the administration costs of commercial real estate companies are also expected to decrease during times of recession and on the other hand rise during an economic boom.

3.4 Competitive advantages and cost of capital

As already stated commercial real estate investment can be considered to be very capital intensive and good access especially to debt financing can be considered to be crucial for investors (Britto et al 2014; Linneman 1997). When the availability of capital is good and the cost of capital cheap, usually the most successful investors can be considered to be those which used this opportunity in their advantage by accessing as much as this cheap capital as possible (Linneman 1997). During economically more difficult times however, when not all the investors might have access to debt financing, the opportunity for investors to access capital can be considered as a great competitive advantage. This applies for the cost of capital as well. The cheaper capital investors have access to the more advantage they gain towards their competitors.

The cost of capital can be considered to be divided into three parts according to Linneman (1997): (1) the cost of debt, (2) the cost of equity, and (3) the cost of raising capital. The cost of debt is associated to debt financing. Usually the better the history of a company's financial performance is, the better access to debt financing it has. The term "better access" includes both the actual availability of financing and the price it is offered at. In addition to financial performance record also the company size by market capitalization has a positive effect in the company's provided access to debt financing. Different debt covenants and security pledges associated with debt financing do also restrict the operational flexibility of real estate investors which might cause losses in their cash flows. These hidden costs caused by losses in cash flows should be also taken into account when calculating and analyzing the company's total cost of debt. Furthermore commercial real estate investors have to make the decision considering the amount of debt leverage used which has a direct influence in the asset's or portfolio's risk profile. Higher leverage tends to increase the return on equity but simultaneously risk profile increases as well creating additional costs of capital. (Linneman 1997.)

Cost of equity is mostly formed by the annual dividend and appreciation of the investment organization. The organization's cost of equity is directly associated with the risks involved in the organization's business operations. In other words in commercial real estate investment in practice this means the risk profile of the asset portfolio and the issues associated to company management. Furthermore the ownership structure of organizations plays an important role in determining the cost of equity. For example publicly listed companies can be considered to be highly liquid as they are actively traded in public stock markets. This liquidity of publicly listed companies decreases the risks of owning shares of the company which furthermore decreases the cost of equity. On the other hand privately owned companies tend to be notably more illiquid as their shares are privately traded simultaneously increasing their cost of equity. This setting creates savings for the publicly listed companies simultaneously enhancing their competiveness. (Linneman 1997.)

The cost of raising capital is associated with the investment organization's access to capital. In capital intensive commercial real estate investment good access to capital plays a vital role in financial success. Thus the mentioned economies of scale associated with larger companies by market capitalization provide notable competitive advantages for them in savings in cost of capital. In some situations when the availability of capital is limited larger and financially better performing companies manage to create notable competitive edge by even attracting the interest of scarcely available capital. (Linneman 1997).

There can be considered to be considerably advantages for real estate investors in maintaining relatively low weighted average cost of capital consisting of the previously mentioned three cost factors. Even slight differences in the real estate investors' weighted average cost of capital might prove to be considerable in the long term creating competitive advantages for the lower capital cost organizations. Furthermore these investors with lower cost of capital could use these accumulated savings to obtain and retain tenants more efficiently by decreasing their rent levels, perform more investments to keep their assets lucrative for the rental markets, pay higher wages than their competitors to gain the best human resources available and use more funding in i.e. advertisement. Ultimately the investor with lower weighted average cost of capital is able to place higher purchase bids of properties than its competitors increasing its chances of actually successfully completing the transaction. These benefits provided by lower cost of capital are an important source for commercial real estate investors during all times but they are even more emphasized during economically difficult times as in recession. (Linneman 1997.)

4 Strategy and competiveness of investors

4.1 Research background and methodology

In this chapter the Finnish Commercial real estate investors which performed transactions during the years 2006, 2009 and 2012 will be analyzed, their investment strategies recognized and later on categorized to groups of similar core competitors. Furthermore the transactions of the years 2006, 2009 and 2012 are categorized and used to measure the rate of transaction successfulness representing the competiveness of different real estate investment organizations.

The transaction volume in the Finnish commercial real estate market was a notable €5,5 bn in 2006 before the highest peak of the 2000's economic boom and numerous different investors were active in the markets (Catella 2014). Afterwards the transaction volume collapsed to a modest level of approximately €1,6 bn in 2009 (Catella 2014) and after the markets had crashed there was a constant flow of especially foreign investors deciding to exit the market simultaneously writing off notable losses. During year 2006 the amount of foreign investors accounted for over 50% of the total annual transaction volume compared to only 16% in year 2009 and 23% in 2012 respectively (Catella 2014). Since 2009 the transaction volumes of the Finnish market have remained at a notably low level and during the year 2012 transactions of only total value of approximately around €2.0 bn were conducted (Catella 2014). During economically difficult times and due to the increased competition only the strongest and the most competitive commercial real estate investment organizations are expected to survive. Thus it is most importantly interesting to notice which kind of investment organizations performing under different investment strategies have managed to perform the best and which have struggled to complete transactions mostly due to their lack of market competiveness during the economically turbulent times. The lack of competiveness manifests itself in transaction situations as investment organizations are unable to successfully complete transactions due to i.e. not being able to provide high enough purchase offers for assets or solely for the unavailability of financing. On the other hand too optimistically valued but otherwise successful transactions could prove to be unable to provide the expected returns during economically difficult times leading to losses and financial difficulties for over-optimistic investment organizations. This could ultimately escalate into bankruptcies where several companies ended up between the years 2008 and 2012.

For the empirical study of this master thesis public transactions reference data from the major transactions list provided by KTI Property Information Ltd was used. The KTI's major transactions list provides general descriptions, asset types, locations, sizes and prizes of each of total 260 transactions performed during the years 2006, 2009 and 2012. In addition the major transactions list provides the purchaser and seller information of each of the transactions. All the transactions are categorized in the list into either (1) residential, (2) office, (3) retail, (4) industrial, (5) logistics, (6) warehouse, (7) hotel, (8) many, (9) other, or (10) empty by their asset type. The locations of the transactions are noted on a municipality level or marked as "many" in the case of portfolio transactions. The purchasing and selling company information is most often complete and the transaction parties are listed by their name. In some cases however the parties are noted as private, unknown, or for other reasons left blank.

The major transactions list was furthermore complemented by more generally categorizing the asset locations of transactions, listed originally on a municipality-level as mentioned previously, to Helsinki Metropolitan Area (HMA), Tampere, Turku, Oulu, Jyväskylä, Kuopio, Lahti and the rest of Finland. In other words the locations were categorized to all the major growth centers of Finland, according to KTI's the Finnish property market 2014 publication, and the rest of the country. In some transactions several locations have been listed or the location information is noted as "many". In these cases each of the portfolio transactions were individually assessed and attempted to be categorized into only one of the previously mentioned categories. In some cases this wasn't possible as the portfolio's properties were located in both the areas of i.e. HMA and the rest of the Finland and such transactions were ranked out of the research data. The more precise locational categorization was required as the investment strategies of commercial real estate investment organizations usually without exception take a quite exact stand on the location of their potential investments.

The list provided by KTI was furthermore modified by grouping the warehouse, logistics and industrial assets into one single group of industrial and logistics assets. This because all these three asset types often same notable similarities making them notably more difficult than i.e. office and retail assets to be distinguished from each other both in theory and considering the investment strategies of investment organizations. Furthermore transactions without asset type mentioned or noted as "many" have been ranked out of the study. This also ranks out portfolio transactions including numerous asset types in varying locations. Several transactions included two asset types as occasionally i.e. office properties tend to have some retail space in them as well. In such transactions the transaction was categorized into the group of the first mentioned asset type as it is assumed to be the one with relatively the most leasable floor area.

The commercial real estate investors acting either as the purchaser or seller in the transactions during the years 2006, 2009 and 2012 were categorized to 11 different categories according to their type of operations. These 11 categories are (1) domestic commercial real estate investment companies, (2) domestic public limited commercial real estate investment companies, (3) foreign commercial real estate investment companies, (4) domestic commercial real estate funds, (5) foreign commercial real estate funds, (6) domestic mutual pension insurance companies (7) real estate development companies, (8) public parties, (9) private investors, (10) others, and (11) unknown. The category of the others include i.e. owner occupiers and public organizations which main aren't usually seeking to gain only financial profit from their real estate investments. This categorization will be used to measure the competiveness of each of the categories compared to others in terms of which organization type has managed to complete relatively the most transactions during the years 2006, 2009 and 2012.

The type of the investment organization doesn't however alone determine the core competitor groups. For example all the foreign funds, domestic investment companies and mutual pension insurance companies could be interested in purchasing the same investment asset according to their strategies despite their different organization type. On the other hand the competiveness of different organization types and ownership structures might vary widely as i.e. Hardin & Wolverton (1999) showed in their study regarding the outstanding competiveness in terms of performed asset acquisitions of equity real estate investment trusts during the 1990's. Thus in order to determine the core competitor groups and to measure the actual competiveness of each individual investment organization the investment strategies of each organization which has successfully managed to complete a transaction either on the purchaser or seller side during the observation period have to be recognized and analyzed. For this study the investment strategies of different organizations were obtained using any publicly available reliable information. These sources of information included among others annual reports, press releases, fund descriptions, company websites and news articles. Due to the lack of publicly available more precise information considering the competitive advantages which the different organizations rely their operations on or business strategies the analysis of investment strategies was focused solely on the two key factors: asset types and asset locations of target investments of each of the organizations.

By combining the recognized and listed investment strategies of the organizations which were active during the years 2006, 2009 and 2012 by performing at least one transaction during any of the years, and the modified KTI's list of major transactions of the corresponding years it is possible to analyze the competitiveness of different commercial real estate investment companies. The analysis is done by comparing the amount of successful transactions of individual investment organizations to the amount of transactions which would fit into their frames of target investments. On the other hand the study does also compare the competiveness of different organization types during the corresponding years. This empirical research does however rely on the mentioned assumptions made in the 3rd chapter of rational investors which aren't overly optimistic in their investment valuations and furthermore on their purchase offers.

All the organization types were calculated a so called comparison value to represent their competiveness compared to other organization types using the amount of performed transactions of each of the organization types and the actual amount of potential investors of each organization type which would be ready to invest in the particular assets. This methodology was derived by the author for the sole purpose of this research. Combining the amount of transactions performed by each organization type and the actual amount of active investors in the corresponding region of the corresponding organization type we are given the amount which number of transactions each of the organization types should have performed. Furthermore by comparing the actual number of transactions to this number of transactions which should have been completed successfully individually determined for each of the organization types we gain the comparison value. In other words the comparison values for each of the organization type were determined using the following formula which was separately used for each organization type, asset type and asset location in order to calculate the average comparison values:

$$C1_{OT_{xyz}} = \frac{AT_{xyz}}{AI_{yz}} \times A_{OT_{yz}}$$

Where:

- $C1_{OT_{xyz}}$ represents the first comparison value of organization type OT during year x for asset type y at location z
- AT_{xyz} represents the number of purchases performed during year x for asset type y at location z
- AI_{yz} represents the total number of investors which are ready to invest in asset type y at location z
- $A_{OT_{yz}}$ represents the number of investors of organization type OT which are ready to invest in asset type y at location z

For the empirical research the comparison values were furthermore compared in relation to each other to gain relative comparison values which could be inserted into the same chart in order to gain more easily readable results. This was done using the following formula:

$$C2_{OT_{xyz}} = \frac{AT_{OT_{xyz}} - C1_{OT_{xyz}}}{C1_{OT_{xyz}}}$$

Where:

- $C2_{OT_{xyz}}$ represents the second comparison value of organization type OT during year x for asset type y at location z
- $AT_{OT_{xyz}}$ represents the number of purchases performed by organization type OT during year x for asset type y at location z
- $C1_{OT_{xyz}}$ represents the first comparison value of organization type OT during year x for asset type y at location z

Finally, in order to get the third and final comparison value simply an average was taken from the second comparison values of each asset types invested by each individual organization type. With eight different asset types used in the empirical research we get:

$$C3_{OT_{xz}} = \frac{1}{n} \times \sum_{y=1}^{n} C2_{OT_{xyz}} = \frac{1}{8} \times \sum_{y=1}^{8} C2_{OT_{xyz}}$$

Where:

- $C3_{OT_{xz}}$ represents the third and final comparison value of organization type OT during year x for assets at location z
- $C2_{OT_{xyz}}$ represents the second comparison value of organization type OT during year x for asset type y at location z

Further on in this research all the mentioned comparison values represent the third and final comparison values (or in other words values of variable $C3_{OT_{xz}}$) calculated according to the formulas presented above. This way each of the organization types is given a comparison value with the value 0 representing the average level of competiveness of all the organization types.

As presented previously due to the amount of comparable transactions data and the fact that most of the active commercial real estate investors' business strategies limit their transactions to only HMA region and other growth centers in the empirical part only the transactions performed in the HMA and growth centers were researched and analyzed. During the years 2006, 2009 and 2012 a total of 111 comparable transactions were performed in the Helsinki metropolitan area and a total of 167 comparable transactions in the growth centers, which includes also the transactions made in the HMA region. How the transactions were divided between the years 2006, 2009 and 2012 can be seen from the table 4:1 below.

	Helsinki Metropolitan Area	Growth Centers
2006	51	70
2009	25	39
2012	35	58
Total	111	167

Table 4:1. The amount of transactions performed during the years 2006, 2009 and 2012 in the HMA and growth centers (KTI 2014)

The impact of the economic cycle can be clearly seen from the varying amount of transactions between the observed years. As expected the transactions amounts were the highest during the year

2006 representing the economic boom. Additionally the total transaction volume of 2006 in Euros was considerably high and peaked at around € 5.5 bn (Catella 2014). After the global financial crisis beginning from the year 2007 the investment markets dived leading to only moderate transaction amounts two years afterwards during the year 2009 representing depression phase of the economic cycle. The transaction amounts of 2009 were only approximately half the amounts of the economic boom in 2006. Despite this the total transaction volume in 2009 was only a remarkable low € 1.6 bn according to Catella (2013) which only represents approximately 29% of the year 2006's transaction volume. This either means that the investors active in the year 2009 were mostly interested in secondary properties trading at a lower price compared to prime assets or the another possibility is that the values of Finnish commercial real estate assets had faced notable write-offs. The depression beginning from 2007 has furthermore continued all the way to year 2012 as well without much signs of a beginning of larger economic recovery. The transaction amounts in the HMA region in 2012 showed a little positive development from the 2009 with 35 transactions. In the growth centers however the transaction amounts had notably increased from the corresponding 2009 levels with an increase of 49%. Despite this however the total transaction volume of 2012 still remained at a relatively low level of approximately € 2.0 bn most likely due to similar reasons the 2009 volume was reasoned with.

4.2 Results

In the HMA region the transaction activity can be considered to be the highest in Finland which has also attracted numerous different investors from both the domestic and the international markets which are seeking for commercial real estate investment opportunities from the region. In this empirical research the different investors were categorized by their organization type as presented in the subchapter 4.1 and the amount of transactions each organization type had managed successfully to complete during the observation years of 2006, 2009 and 2012 were compared to the actual amount of investors of each organization type which were by their business strategy ready to invest in the corresponding asset. These so called comparison values were then analyzed individually during the years 2006, 2009 and 2012 in order to determine the competiveness of each organization type during different phases of the economic cycle. The overall results based on these comparison values can be found from the tables 4:2, 4:3 and 4:4. These results were also visualized into several graphs. The visualizations had to be divided into two different graphs in order to gain a more specific perspective of the bottom six group by their competiveness as one organization type stood clearly out in the research for its favor. Furthermore the visualizations of the more specific results from the HMA region, the growth centers and the total results considering them both in particular can be seen from the figures 4:5-4:10.

	2006	2009	2012
Domestic real estate investment companies	-0,6628	-0,0698	-0,5754
Publicly listed real estate investment companies	6,3671	2,2724	2,4171
Foreign real estate investment companies	-0,3277	-0,8151	-0,2602
Domestic real estate funds	-0,3597	-0,4318	-0,4471
Foreign real estate funds	-0,6011	-0,5475	-0,6709
Mutual pension insurance companies	-0,3499	0,2964	-0,5688
Real estate developers	-0,8355	-1,0000	-0,1382
Others	-0,2262	-1,0000	0,7708

Table 4:2: Average competiveness in HMA and growth centers by organization type and year

	2006	2009	2012
Domestic real estate investment companies	-0,7682	-0,4395	-0,7255
Publicly listed real estate investment companies	5,2236	2,0449	1,2875
Foreign real estate investment companies	-0,5505	-0,8969	-0,3405
Domestic real estate funds	-0,5690	-0,6097	-0,6806
Foreign real estate funds	-0,6970	-0,7172	-0,6737
Mutual pension insurance companies	-0,3756	-0,2671	-0,8256
Real estate developers	-0,8438	-1,0000	-0,4630
Others	-1,0000	-1,0000	0,3750

Table 4:3: Average competiveness in HMA by organization type and year

	2006	2009	2012
Domestic real estate investment companies	-0,5573	0,2999	-0,4254
Publicly listed real estate investment companies	7,5106	2,5000	3,5467
Foreign real estate investment companies	-0,1050	-0,7333	-0,1800
Domestic real estate funds	-0,1504	-0,2539	-0,2135
Foreign real estate funds	-0,5051	-0,3778	-0,6681
Mutual pension insurance companies	-0,3242	0,8600	-0,3120
Real estate developers	-0,8272	-1,0000	0,1867
Others	0,5476	-1,0000	1,1667

Table 4:4: Average competiveness in growth centers by organization type and year

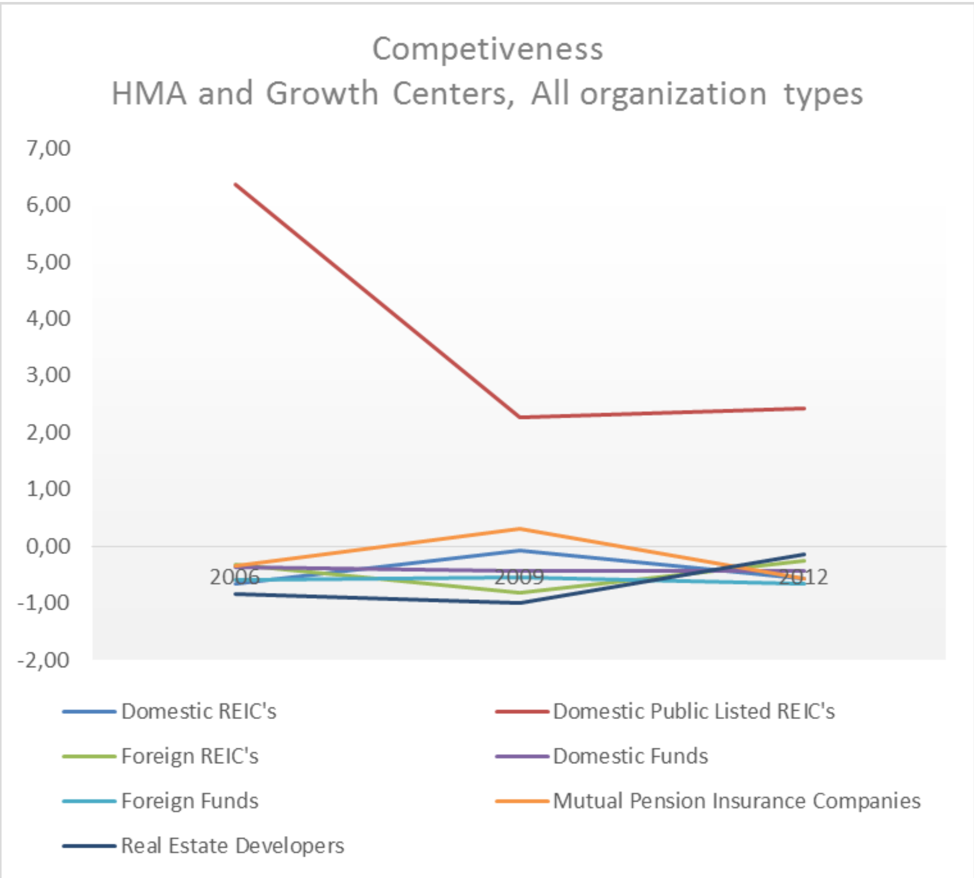

Figure 4:5. Competiveness of all the organization types in overall

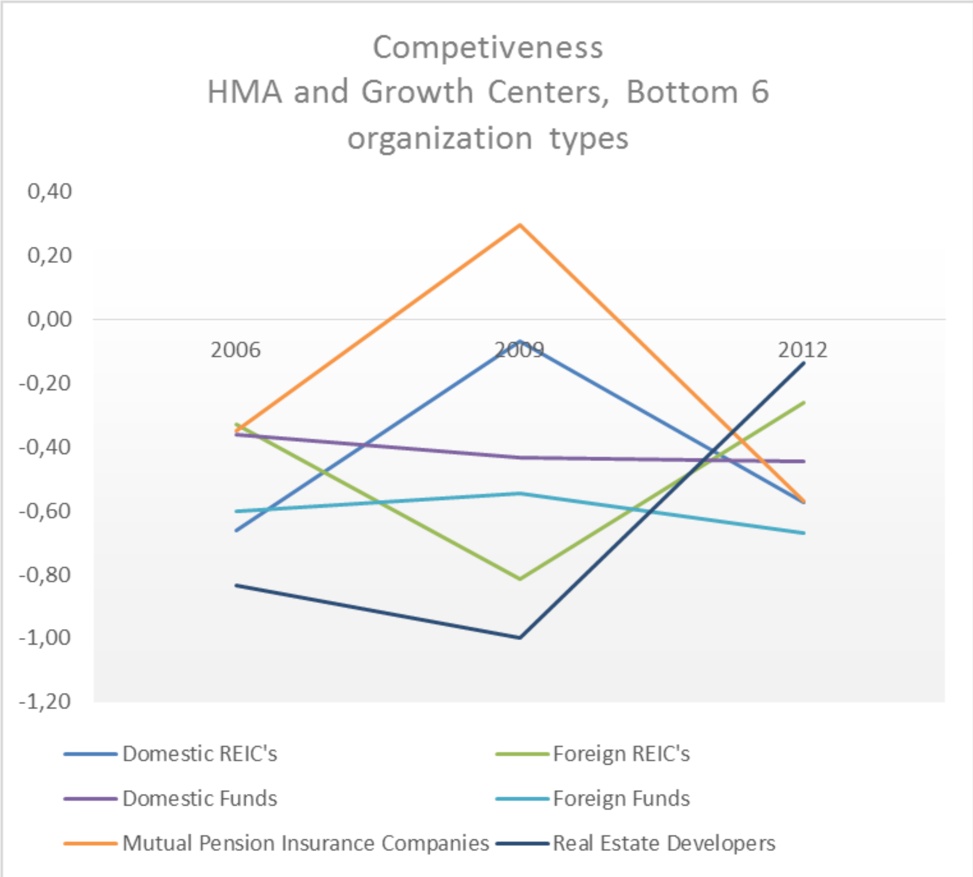

Figure 4:6. Competiveness of all the bottom six organization types in overall

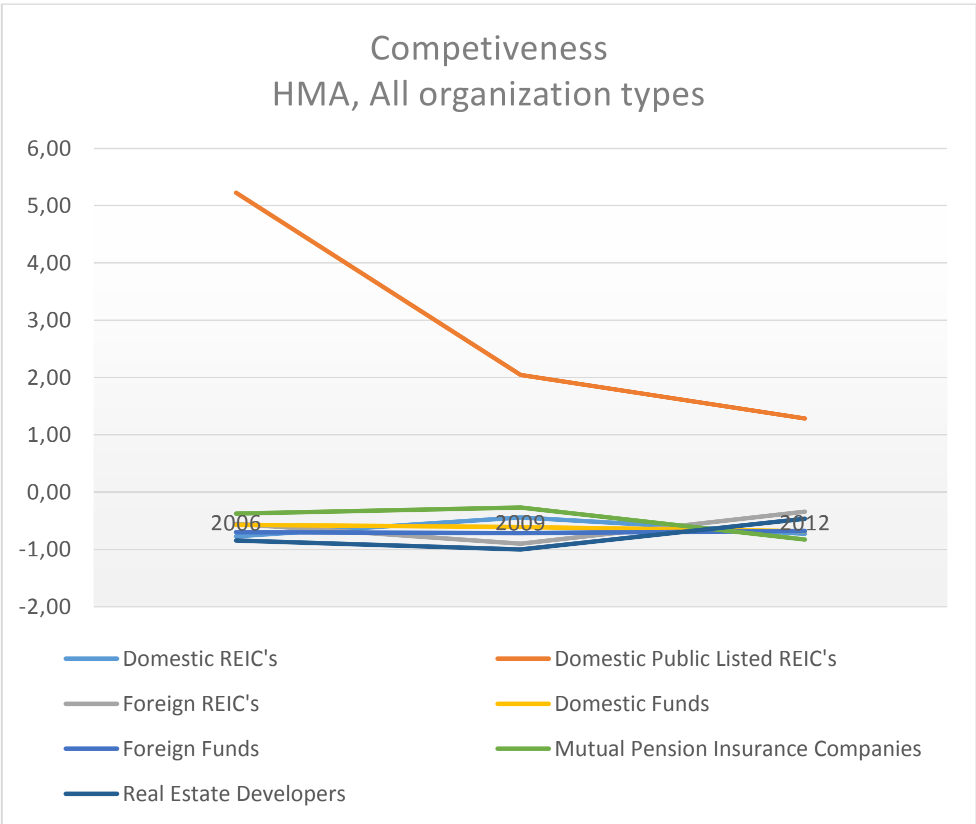

Figure 4:7. Competiveness of all the organization types in the HMA region

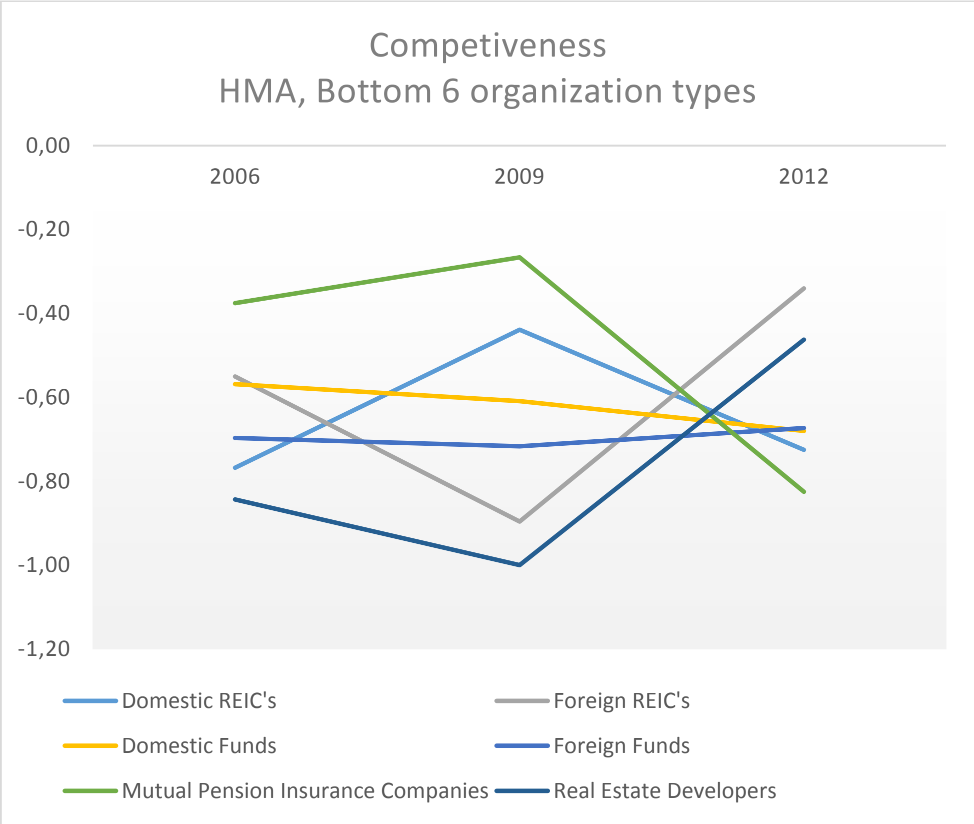

Figure 4:8. Competiveness of the bottom six organization types in the HMA region

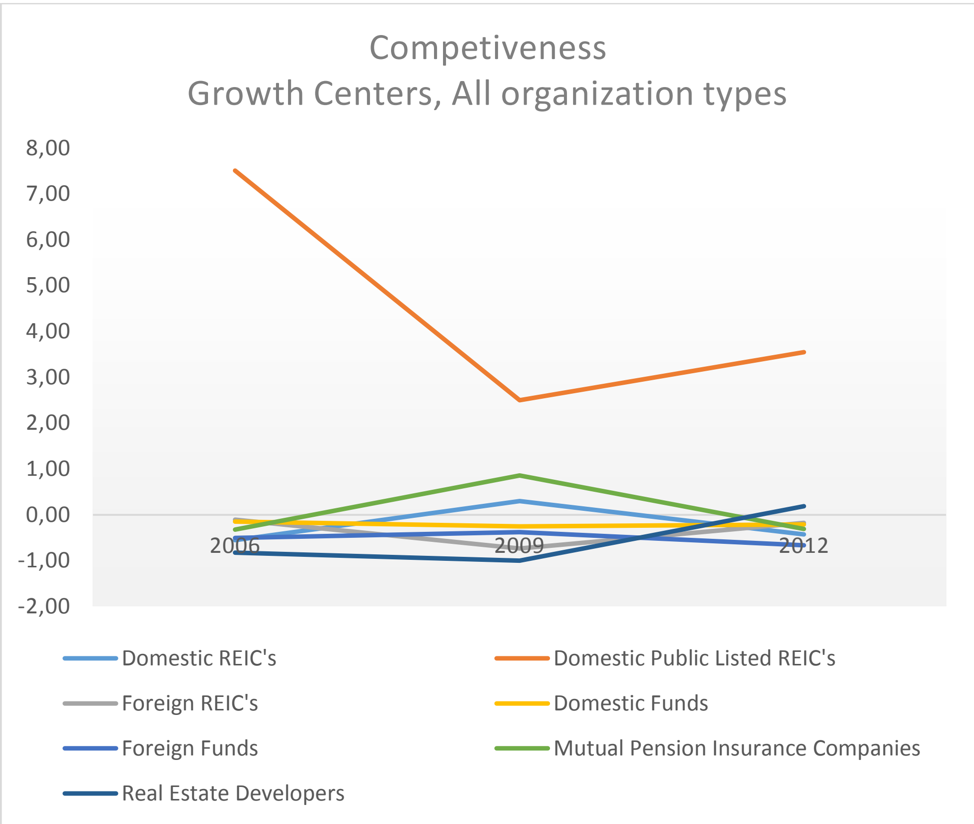

Figure 4:9. Competiveness of all the organization types in the growth centers of Finland

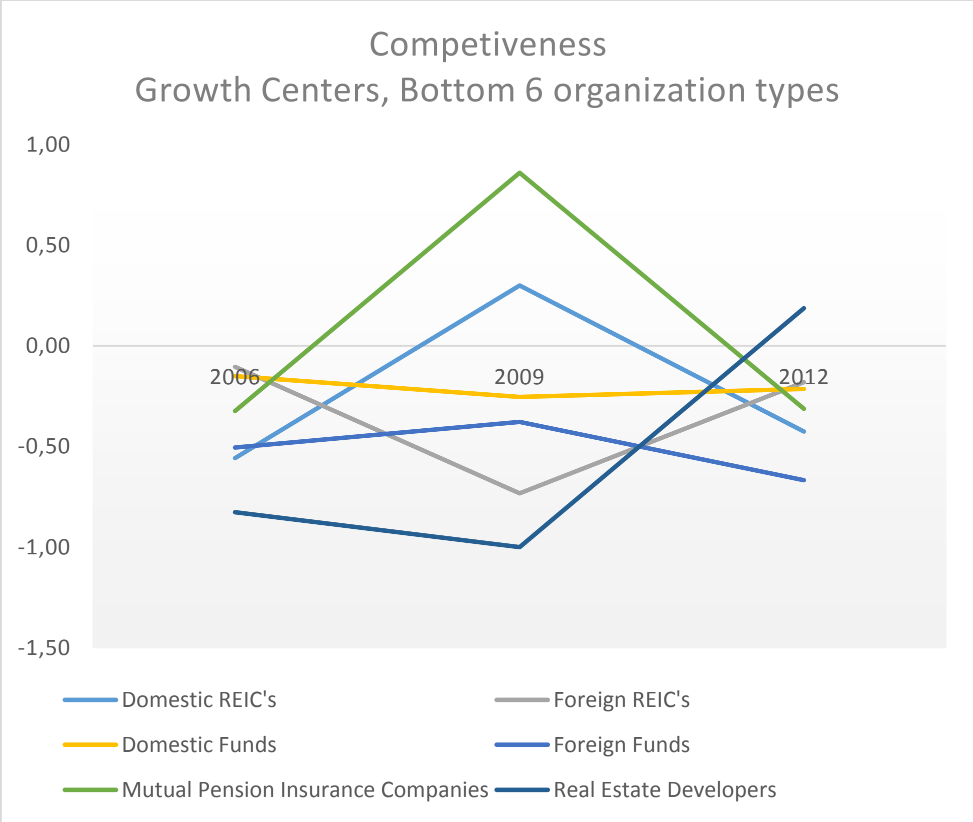

Figure 4:10. Competiveness of the bottom six organization types in the growth centers of Finland

Publicly listed real estate investment companies

As the table 4:2 and figure 4:5 clearly shows the organization type with the most competitive advantages in total seems to be the domestic publicly listed real estate investment companies. The difference between this organization type and the rest of the organizations is remarkable. The bottom six however seem to be very close to each other by their comparison values which represents their competiveness. There could be several reasons for the outstanding competiveness of the publicly listed real estate investment companies or PREICs. Firstly the amount of domestic PREICs can be considered to be relatively low as there are currently and were during the observation period only four active PREICs investing in commercial real estate assets: Sato Plc, Sponda Plc, Technopolis Plc and Citycon Plc. Out of these four Sato invests solely in residential assets, Technopolis in office assets, Citycon in retail assets and Sponda during the years 2006, 2009 and 2012 in all commercial real estate assets but residential ones. Thus all the four are specialized in investing in certain asset types and thus aren’t that much rivals of themselves with the only exception of Sponda which is assumed to compete in some transaction situations against Technopolis or Citycon.

Despite the low number of PREICs by size all the four mentioned business organizations are notable with all their invested total asset values reaching at least € 1.0 bn and all of them reaching the top 12 of all active investment companies in the Finnish markets by size as of 2014 (KTI 2014). Part of the success in competiveness of PREICs is assumed to be supported by the financial benefits made possible by their large size. In other words the PREIC's are benefiting from the economies-of-scale which increases their competiveness as supported by i.e. the study focused on economies-of-scale of real estate investment trusts performed by Bers & Springer (1997). As mentioned previously in the subchapter 2.2.1 larger business organizations have been traditionally offered debt at lower interest rates due to their lower risk profile. The argument of positive impact of economies of scale to individual investor's access to capital and cost of capital is also presented by i.e. Linneman (1997) which furthermore explains the competitive superiority of PREICs characterized by their large market capitalization. Furthermore these large PREICs do also gain substantial amounts of bargaining power as described in subchapter 2.3.2 when they are purchasing different services for their large asset pools simultaneously decreasing their operating costs. Due to their size they can be also considered to be remarkable players in the Finnish commercial real estate investment markets and are thus assumed to possess high amounts of information regarding the markets and to actively participate in transaction opportunities due to good deal sourcing possibilities. Furthermore the large organization size is supported by the publicly listed organization type which has traditionally been recognized to benefit especially larger organizations in several different ways. Furthermore together the low number of active PREICs and the high amount of transactions they have managed to complete successfully during the observer years has contributed towards the high comparison values of the four mentioned companies.

Even though the PREICs managed to perform well in overall in the research the economic downturn of 2007 can be however clearly seen in their competiveness. During the year 2006 when the economy was booming the PREICs had remarkably high comparison values of over 5.00 in the HMA region which however fell down to 2.00 by average in 2009 while the rest of the organization types seemed to sustain the downfall with a relatively smaller impact on their competiveness. Furthermore the competitive superiority of PREICs decreased even more in 2012 even though the economic situation remained relatively the same between the years 2009 and 2012. In other words the economic downturn seems to have higher impact on PREICs which according to the research have notable competitive advantages compared to others during times of economic boom. During depression their advantageous position is more easily challenged by the other organization types which haven’t observed such a drastic downturn in their competiveness. Thus it can be stated that PREICs seem to be more sensitive to fluctuations in the economic cycle than other organization types.

Mutual pension insurance companies

The bottom 6 organization types include the domestic and foreign real estate investment companies, domestic and foreign real estate funds, pension insurance companies and real estate developers. When observing the bottom 6 organization types by their comparison values gained in the research resembling their overall competiveness a clear pattern can be seen in the performance of the organization types during the observation years representing different phases of the economic cycle. The pattern is the same despite observing either the HMA region or the growth centers which justifies the argument of a national level phenomena. During the year 2006 the comparison values of mutual pension insurance companies can be considered to be the highest of the bottom 6 with the difference to following organization types growing even further during the year 2009. During the year 2012 however the overall competiveness of mutual pension insurance companies collapses and is actually the lowest of all the organization types in the HMA region and among the lowest three in the growth centers and overall scores.

Reasons for this pattern can be widely discussed. The investment nature of the Finnish mutual pension insurance companies can be considered to be relatively different compared to other organizations types active in the market. First of all the Finnish mutual pension insurance companies aren't allowed to use debt financing for their commercial real estate investments which supports their rather riskless investment approach. The mutual pension insurance companies do also often prefer prime assets in their business strategies in order to furthermore decrease their risk profile and to generate steady returns. Thus mutual pension insurance companies are also assumed to have investable equity available at all times which at least partly justifies their good performance during economically more difficult times as they don't have to worry about the availability of external finance. This is also clearly expressed by their strong comparison value in 2006. However the unability to use debt financing could also harm the mutual pension insurance companies during economic booms as the sole use of equity doesn't necessarily provide as good risk-adjusted returns as the organizations using debt financing would gain. To brief mutual pension insurance companies can be considered to be strong competitors and willing to invest also during economically more difficult times and average competitors during other phases of the economic cycle.

Domestic real estate investment companies

Domestic real estate investment companies follow quite the same pattern in their competiveness than mutual pension insurance companies. However during economic boom they gain a rather low overall score in their comparison values leaving only real estate development companies behind. Their competiveness however clearly increases as the economic boom turns to depression in 2009. However as the depression continues their competiveness faces similar downturn as the mutual pension insurance companies do leading to similarly weak competiveness in the year 2012. Most of the active domestic commercial real estate investment companies in the Finnish markets can be considered relatively small organizations often investing in properties on a rather small operating area. Such small organizations gain competitive advantages in economically more difficult times most likely especially due to their locality (as a majority of the domestic real estate investment companies included in the research data described their business strategy as to invest solely on local assets often in the area of a single growth center) and versatility provided by their small size despite having much less bargaining power compared to i.e. large foreign investors or publicly listed organizations. Furthermore especially the lack of bargaining power, the financial superiority and the assumed better market knowledge and sourcing possibilities of especially larger organizations by size might be the reasons explaining the low competiveness of domestic commercial real estate investment companies during economic boom.

Foreign real estate investment companies

Unlike the domestic real estate investment companies the foreign investment organizations often tend to be relatively large by their size. In most of the cases these non-fund foreign organizations investing in Finland are foreign banks. Especially banks based in Germany and United Kingdom have been relatively active in the Finnish commercial real estate markets after its development into a modern, relatively well-functioning investment environment during the 2000's. Their interest and competiveness in the Finnish market rose to a relatively high state during the economic boom when foreign companies began searching for new investment opportunities outside the highly competed traditional core business areas including i.e. London and Paris. During 2006 the foreign investment organizations were rather active in the Finnish commercial real estate markets as well and they were even able to match the competiveness of mutual pension insurance companies and domestic funds. After the economic downturn however the interest of foreign investment organizations in the Finnish markets vanished as described already in the introduction chapter. Foreign investment organizations had drastically overinvested in the local markets and several companies decided to bail the market simultaneously writing notable losses while divesting their investments. The interest to invest and their competiveness in the Finnish commercial real estate market decreased notably after the downturn providing foreign investment organizations the lowest comparison value after real estate development companies for the year 2009. After 2009 however the interest of foreign investment organizations in the Finnish real estate market has risen again and some organizations have again begun to make new investments in the market. However this time with a more careful approach. The again increased interest has also increased the competiveness of foreign real estate investment companies providing them a rather good comparison value for the year 2012.

Domestic real estate funds

Unlike domestic investment companies the domestic funds seem to have performed relatively well during each of the observed years despite the phase of the economic cycle. The research results are also similar in both the HMA region and growth centers. The overall performance of domestic funds in the bottom six can be considered average but having little to no affect from the phase of the economic cycle. Thus during each of the years 2006, 2009 and 2012 the domestic funds of Finland investing in commercial real estate assets have managed to complete an average amount of transactions providing them an average comparison value during each of the years. The business operations and investment strategy of funds differs a bit from typical investment companies. When majority of both the private and public investment companies attempt to create steady cash flows with their investments with an unfixed long-term investment horizon all the funds with only a few exceptions do always have a certain fixed lifetime. This means that it is important for the funds to in addition to the steady cash flows from lease agreements to also gain capital gains as well which were described in the chapter 3. This means the funds will attempt to exit their investments with a price higher than the original price of investment by i.e. signing value increasing lease agreements or by performing small development projects.

When launched funds are also proactively seeking investment opportunities for their capital commitments as their performance measurement in terms of returns provided for their investors begins to run immediately after capital commitments are made. Thus it is important for the funds not to have excess capital sitting in their bank accounts but the capital should instead be invested in assets. This creates pressure for the real estate funds which might have effect on their investment decisions as well and this might lead to paying higher than market value purchase prices in order to get their capital invested. Domestic funds do without much exception however only invest in domestic assets which leaves out the option for capital to be invested in foreign countries. Thus as long as the amount of domestic funds remains the same also their transaction activity should remain the same which should justify the research results providing similar competiveness comparison values during all the years 2006, 2009 and 2012.

Foreign real estate funds

Foreign funds act much like the domestic funds with their fixed investment horizon and capital commitments. Furthermore just like domestic funds the performance of foreign funds seems to be relatively steady with quite a low volatility during the observation years despite the economic boom turning to a depression. The competitive advantages of foreign funds, however, seem to be weaker in overall compared to the competiveness of domestic funds. This can be explained by the larger amount of market knowledge possessed by professional domestic funds which could give domestic funds some competitive advantage over foreign funds. On the other hand foreign funds with the possibility to invest internationally in the frames of their investment strategies could have seen the commercial real estate investment markets of other countries or localities as a more lucrative environment for investment. Furthermore it could prove to be more difficult for foreign funds to reach as high amount of transaction opportunities through sourcing as their domestic counterparts would normally do. Despite expected to have less market knowledge and valuable local contacts than domestic funds the foreign real estate funds investing in the Finnish markets have very much the same characteristics as domestic funds. The lack of knowledge and local contacts is thus assumed to be actually the only reason giving them a lower comparison value than their Finnish counterparts.

Real estate developers

The last investment organization type analyzed in this empirical reasearch are the real estate developers. The nature of real estate development organizations' business operations and investment strategies can be considered to be notably different than any of the other organization types discussed in this thesis as they are often interested in assets which are of no actual investment interest to any of the other organization types. Thus the real estate developers category can be considered to be not comparable with the rest of the organization types in terms of their competiveness. The real estate developers can thus be assumed to be a category of their own as they are actively investing solely in developable assets with a goal to gain financial profit by developing the asset further by i.e. driving through urban plan changes, major renovation projects or such. Despite this it is still interesting to see how the amount of development transactions has changed during different phases of the economic cycle which in this case the comparison values provided for real estate development organizations represent. In the case of real estate developers the comparison value can be considered to reflect more the amount of transactions real estate developers have managed to perform instead of providing actual measurement of their competiveness.

During economic boom or the year 2006 real estate developers have managed to perform only a very limited amount of transactions. This can be easily reasoned with the argument that during good economic times even the more secondary assets are easily transactioned for a good price as they are leaving little to no space for the real estate developers to financially benefit from development projects. During the year 2009 which in this case represents the times of the economic downturn the amount of transactions performed by real estate developers decreases further. However during the year 2012 when the amount of transactions begins to grow rapidly while the transaction volume in Euros simultaneously remains relatively low also the real estate developers manage to perform succesful transactions. These transactions do include office reformation projects and also lots of type of usage alteration projects from i.e. office to residential properties as the Finnish space markets begun to be flooded by excess and outdated office space by the time. Thus as depression creates new requirements for outdated and badly performing real estate assets which were most likely performing relatively well still during the economic boom, also the real estate development companies activate themselves in the investment markets and begin to seek opportunitites in order to gain financial profits.

Reliability of the results

As mentioned previously, the amount of research data consisting of comparable transactions was quite extensive and considered 260 transactions in total. The amount of comparable transactions taken into account in the empirical research was furthermore reduced to only the locations of HMA and growth centers of Finland. Yet the remaining 167 comparable transactions used in the empirical research in proportion to the amount of the eight selected comparable organization types can be also considered to be extensive and thus the research results can be considered to be statistically valid. All the comparable transactions were accurately categorized by asset type and location which furthermore supports the validity of the results in terms of the research data used.

On the other hand all the investment strategies of commercial real estate investors which performed at least one transaction during the observation years of 2006, 2009 and 2012 were categorized solely according to publicly available information. Even though the information used was carefully selected from reliable sources, there are however possibilities that the collected information considering investment strategies of different investors might be imperfect or erroneous in terms of the asset types and locations varying investors were actually interested in investing according to their strategies to during the research period. Furthermore different investors could have altered their investment strategies during the observation period of 2006-2012. Finding public information about these alterations in strategy can be considered to be difficult and thus possible alterations weren't taken into account in the empirical research. Instead only one publicly collected and verified investment strategy per investor was used in this research. Together these possible flaws related to the investment strategies of investors might create slight distortions in the research results.

The actual amount of potential investors which would be interested in purchasing certain asset types at certain locations might vary as well. This variance is partly explained by the difficulties in recognizing the investment strategies of different investors as described previously. Furthermore the empirical research assumes that all the investors would have been active during all the years 2006, 2009 and 2012. In practice different investors join and leave markets actively and only a certain proportion of them were actually active and interested in investing in to the markets during all of the observation years. Furthermore real estate funds tend to be active in the transaction markets only during the investment and divestment phases of the funds' life cycles and are closed after all their assets have been succesfully divested in to the markets. This means that probably only a few of the individual funds were actually active during all the observed years. On the other hand some large domestic investors including especially the publicly listed real estate investment companies and mutual pension insurance companies have been active in the markets past all the observation years. Considering the relatively small amount of publicly listed real estate investment companies together with the fact that they have all been highly active during all the observation years might create positive distortions considering their competiveness in the research results. Thus in reality i.e. the notable difference between the competiveness of the publicly listed real estate investment companies and the rest of the organization types can be considered to be smaller.

In short the results can be considered to be very reliable in terms of the transactions data. Distortions are caused by the categorization of investment strategies of different investors and the assumptions made considering the activity of different investors. Even though the research results considering the competiveness of different orgranization types wouldn't resemble the actual reality perfectly, they can be still considered to be very close to it and at least provide approximate results of the research objective.

5 Conclusions

The purpose of this research was to review the sources of competitive advantages gained by commercial real estate investment companies and to empirically research the actual competitive advantages possessed by investors of different organization types. Empirical research was performed using data from the Finnish property market. The set research objective was to answer which organization types gain the most competitive advantages during different phases of the economic cycle and to attempt to measure this amount of gained competitive advantages in practice.

The results reveal that indeed the publicly listed commercial real estate investment companies of Finland possess the most competitive advantages compared to other organization types. This finding is much in line with the theoretical part of this thesis as being large companies they possess notable advantages compared to their competitors. Probably the largest factor benefiting their competiveness if their cost of capital which is assumed to be relatively low. Indeed the cost of capital as presented in this thesis plays an extremely important role in capital intensive commercial real estate investment industry. Furthermore their large size creates advantages through benefits created by economies of scale. The competitive superiority of publicly listed commercial real estate investment companies lasts during different phases of the economic cycle but according to research results they are still the at their strongest in relation to other organization types during the times of economic boom.

The results revealed interesting fluctuations in the competiveness of the other organization types as well. There is a clear pattern in the competiveness of domestic non-listed commercial real estate investment companies and mutual pension insurance companies as their competiveness increased notably in relation to their rivals from 2006 to 2009, or in other words after the markets had crashed after the 2007 financial crisis. This means that during economically difficult times and immediately after financial downturn these two organization types have managed to perform relatively well. Whether or not this is caused by actual competitive advantages possessed by them, or if the pressure or courage to invest during recession plays a role in these results remains to be solved. The competiveness of these two organization types however fell sharply between 2009 and 2012 most likely due to the again increased interest of foreign real estate investment companies towards the Finnish commercial real estate investment market which simultaneously increased amount of competition.

Foreign real estate investment companies, as stated, increased their competiveness notably between the years 2009 and 2012. During the economic boom of 2006 the foreign real estate investment companies were considerably active in the Finnish property market and performing numerous successful transactions with a similar competiveness than most of the other organization types. After the crashing of the markets in 2007 however many of these foreign companies decided to exit the market simultaneously writing off notable losses which might suggest heavy overinvestment in real estate assets before the year 2007. However a few years after the financial crisis the interest of foreign investors in the Finnish property market woke up again and they managed to perform numerous transactions in 2012 rather competitively.

Both the domestic and foreign funds possessed the lowest volatility in their competiveness according to the results of this empirical research. Both of them managed to compete at an average level in relation to the other organization types. However, as pointed out previously, there are several factors which could explain this relatively low volatility. Funds can be considered to have a fixed time of life due to their beforehand determined holding periods and they are active only during the investment and divestment phases of the fund's life cycle. Especially during their investment phase funds are often subject to pressure to complete transactions in order to invest the committed capital as fast and efficiently as possible. Thus as new funds enter the markets and old funds exit the markets and the relative ratio of these two remains the same also the amount of transactions by volume performed by domestic and foreign funds should remain about the same. The foreign funds however have the opportunity to choose between the commercial property markets of different nations and are thus more flexible in terms of allocating their portfolios as efficiently as possible while the domestic funds are usually forced to invest in assets of the Finnish property market only.

Even though the results provided by this research are interesting and give an approximate view of the competiveness of different organization types investing in the Finnish commercial real estate market there are still previously described possibilities for these results to be slightly imperfect or even erroneous mostly due to difficulties in recognizing the investment strategies of different investors using public data sources only. This leaves space for further research regarding the investment strategies and their alterations of different commercial real estate investors which are currently active or have been in the past. More precise results might thus be gained by collecting investment strategy data using interviewing or other focused and interactive method for data collection. Furthermore by broadening the observation period from the years 2006, 2009 and 2012 observed in this thesis to a wider time perspective more detailed and precise results could be gained.

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